

**CENTRAL REINSURANCE CORPORATION**  
**FINANCIAL STATEMENTS AND REVIEW REPORT**  
**OF INDEPENDENT ACCOUNTANTS**  
**SEPTEMBER 30, 2016 AND 2015**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.



資誠

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

PWCR16000111

To Central Reinsurance Corporation

We have reviewed the accompanying balance sheets of Central Reinsurance Corporation as of September 30, 2016 and 2015, and the related statements of comprehensive income for the three-month and nine-month periods ended September 30, 2016, and 2015, as well as the statement of changes in equity and of cash flows for the nine-month periods ended September 30, 2016 and 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Engagements to Review Financial Statements" in the Republic of China. A review consists primarily of inquires of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the "Rules for the Preparation of Financial Reports by Insurance Institutions" and International Accounting Standard 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission.

*PricewaterhouseCoopers, Taiwan*

October 27, 2016

Taipei, Taiwan

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

**CENTRAL REINSURANCE CORPORATION**  
**BALANCE SHEETS**

(Expressed in thousands of New Taiwan dollars)

(The balance sheets as of September 30, 2016 and 2015 are reviewed, not audited)

ASSETS	Notes	September 30, 2016		December 31, 2015		September 30, 2015		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
11000	Cash and cash equivalents	6(1)	\$ 12,360,554	36	\$ 16,461,567	50	\$ 17,656,673	53
12000	Accounts receivable	6(2)	257,946	1	248,065	1	156,778	1
12600	Current income tax assets		69,977	-	69,977	-	69,977	-
14110	Financial assets at fair value through profit or loss	6(3)	675,681	2	537,573	2	604,651	2
14120	Available-for-sale financial assets	6(4)	8,105,210	24	3,802,122	11	3,772,061	11
14160	Investments in debt instrument without active market	6(5)	5,018,400	15	5,478,882	17	4,686,298	14
14170	Held-to-maturity financial assets	6(6)	842,735	3	-	-	-	-
14180	Other financial assets	6(7)	999,017	3	1,422,932	4	583,273	2
14200	Investment property, net	6(9)	455,268	1	456,730	1	457,381	1
15000	Reinsurance contract assets	6(10)	3,762,317	11	3,455,783	10	3,917,711	12
16000	Property and equipment, net	6(13)	209,221	1	213,444	1	214,586	1
17000	Intangible assets		2,807	-	3,786	-	752	-
17800	Deferred income tax assets		58,467	-	28,124	-	36,666	-
18000	Other assets		1,088,720	3	1,086,086	3	1,052,256	3
	<b>TOTAL ASSETS</b>		<b>\$ 33,906,320</b>	<b>100</b>	<b>\$ 33,265,071</b>	<b>100</b>	<b>\$ 33,209,063</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>								
21000	Accounts payable	6(14)	\$ 488,654	2	\$ 425,192	2	\$ 460,320	2
21700	Current income tax liabilities		51,259	-	68,011	-	10,542	-
23200	Financial liabilities at fair value through profit or loss	6(3)	5,112	-	31,549	-	71,219	-
24000	Insurance liabilities	6(10)	23,774,648	70	23,279,625	70	23,454,931	71
27000	Provisions		7,255	-	8,015	-	5,630	-
28000	Deferred income tax liabilities		55,716	-	76,186	-	92,513	-
25000	Other liabilities		55,041	-	27,012	-	24,128	-
	<b>TOTAL LIABILITIES</b>		<b>24,437,685</b>	<b>72</b>	<b>23,915,590</b>	<b>72</b>	<b>24,119,283</b>	<b>73</b>
30000	<b>EQUITY</b>							
31000	<b>Capital</b>							
31100	Common stock	6(16)	5,622,750	16	5,622,750	17	5,622,750	17
32000	Capital reserve		300,000	1	300,000	1	300,000	1
33000	<b>Retained earnings</b>							
33100	Legal reserve		1,601,584	5	1,448,411	4	1,448,411	4
33200	Special reserve	6(18)	1,194,523	3	1,194,523	4	976,714	3
33300	Undistributed earnings		896,142	3	816,086	2	818,813	2
34000	Other equity interest		(146,364)	-	(32,289)	-	(76,908)	-
	<b>TOTAL EQUITY</b>		<b>9,468,635</b>	<b>28</b>	<b>9,349,481</b>	<b>28</b>	<b>9,089,780</b>	<b>27</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 33,906,320</b>	<b>100</b>	<b>\$ 33,265,071</b>	<b>100</b>	<b>\$ 33,209,063</b>	<b>100</b>

The accompanying notes are an integral part of these financial statements.

CENTRAL REINSURANCE CORPORATION  
STATEMENTS OF COMPREHENSIVE INCOME  
(Expressed in thousands of New Taiwan dollars, except for earnings per share)  
(Unaudited)

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2016		2015		2016		2015	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
41000		<b>Operating revenues</b>							
41100		\$ 3,284,003	94	\$ 3,406,101	100	\$ 10,646,636	104	\$ 10,945,341	102
51100		( 176,889)	( 5)	( 186,100)	( 5)	( 717,039)	( 7)	( 750,270)	( 7)
51310		154,179	4	104,728	3	( 232,498)	( 2)	( 97,115)	( 1)
41130		<b>Retention earned premiums</b>							
41300		3,261,293	93	3,324,729	98	9,697,099	95	10,097,956	94
41300		65,717	2	59,944	2	208,228	2	224,322	2
41400		3,160	-	3,396	-	9,880	-	10,582	-
41500		<b>Net gain from investment</b>							
41510		63,406	2	70,301	2	223,120	2	277,184	3
41521	6(3)								
		119,552	3	( 277,381)	( 8)	219,978	2	( 264,028)	( 2)
41522		129,338	4	( 87,470)	( 3)	60,223	1	106,590	1
41524		-	-	-	-	-	-	19,323	-
41550		( 147,726)	( 4)	290,307	9	( 281,186)	( 2)	204,439	2
41570	6(9)	4,982	-	5,577	-	15,931	-	16,084	-
		169,552	5	1,334	-	238,066	3	359,592	4
41800		2,953	-	10,998	-	20,821	-	13,166	-
		<u>3,502,675</u>	<u>100</u>	<u>3,400,401</u>	<u>100</u>	<u>10,174,094</u>	<u>100</u>	<u>10,705,618</u>	<u>100</u>
51000		<b>Operating costs</b>							
51200		( 2,174,284)	( 62)	( 1,992,727)	( 59)	( 6,156,039)	( 60)	( 7,132,890)	( 66)
41200		137,215	4	96,274	3	345,039	3	331,704	3
51260		( 2,037,069)	( 58)	( 1,896,453)	( 56)	( 5,811,000)	( 57)	( 6,801,186)	( 63)
51300		( 59,951)	( 2)	( 325,677)	( 10)	( 239,302)	( 2)	( 333,188)	( 3)
51500		( 955,981)	( 27)	( 1,028,538)	( 30)	( 3,140,221)	( 31)	( 3,268,987)	( 31)
51800		( 14)	-	( 7,541)	-	( 35)	-	( 762)	-
		<u>( 3,053,015)</u>	<u>( 87)</u>	<u>( 3,243,127)</u>	<u>( 96)</u>	<u>( 9,190,558)</u>	<u>( 90)</u>	<u>( 9,737,747)</u>	<u>( 91)</u>
58000		<b>Operating expenses</b>							
58100		( 47,615)	( 1)	( 51,470)	( 1)	( 146,277)	( 2)	( 161,771)	( 1)
58200		( 29,957)	( 1)	( 28,790)	( 1)	( 90,981)	( 1)	( 92,186)	( 1)
58300		( 397)	-	( 395)	-	( 907)	-	( 1,165)	-
		<u>( 77,969)</u>	<u>( 2)</u>	<u>( 80,655)</u>	<u>( 2)</u>	<u>( 238,165)</u>	<u>( 3)</u>	<u>( 255,122)</u>	<u>( 2)</u>
		371,691	11	76,619	2	745,371	7	712,749	7
59000		20	-	( 1,901)	-	24	-	( 1,901)	-
62000		371,711	11	74,718	2	745,395	7	710,848	7
63000	6(19)	( 53,297)	( 2)	( 19,478)	-	( 118,573)	( 1)	( 162,081)	( 2)
64000		318,414	9	55,240	2	626,822	6	548,767	5
66000		318,414	9	55,240	2	626,822	6	548,767	5
83000		<b>Other comprehensive income</b>							
83200		<b>Items may be reclassified to profit or loss subsequently</b>							
83210		( 20,983)	( 1)	-	-	( 33,561)	-	-	-
83220	6(4)	20,437	1	( 329,058)	( 10)	( 99,116)	( 1)	( 265,631)	( 2)
83280	6(4)(19)	3,020	-	20,532	1	18,602	-	24,458	-
		<u>2,474</u>	<u>-</u>	<u>( 308,526)</u>	<u>( 9)</u>	<u>( 114,075)</u>	<u>( 1)</u>	<u>( 241,173)</u>	<u>( 2)</u>
85000		<u>\$ 320,888</u>	<u>9</u>	<u>\$ 253,286</u>	<u>( 7)</u>	<u>\$ 512,747</u>	<u>5</u>	<u>\$ 307,594</u>	<u>3</u>
		<b>Earnings per share</b>							
97500		<u>\$ 0.57</u>		<u>\$ 0.10</u>		<u>\$ 1.11</u>		<u>\$ 0.98</u>	

The accompanying notes are an integral part of these financial statements.

**CENTRAL REINSURANCE CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	Retained Earnings				Other equity interest		Total equity	
		Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Undistributed Earnings	Exchange differences on translation of foreign financial statements		Unrealized gains (losses) on available-for-sale financial assets
<u>Nine-month period ended September 30, 2015</u>									
Balance at January 1, 2015		\$ 5,622,750	\$ 300,000	\$ 1,274,236	\$ 976,714	\$ 1,118,951	\$ -	\$ 164,265	\$ 9,456,916
Distributions of 2014 earnings									
Legal reserve		-	-	174,175	-	( 174,175)	-	-	-
Cash dividends	6(18)	-	-	-	-	( 674,730)	-	-	( 674,730)
Net income for the period		-	-	-	-	548,767	-	-	548,767
Other comprehensive loss for the period		-	-	-	-	-	-	( 241,173)	( 241,173)
Balance at September 30, 2015		<u>\$ 5,622,750</u>	<u>\$ 300,000</u>	<u>\$ 1,448,411</u>	<u>\$ 976,714</u>	<u>\$ 818,813</u>	<u>\$ -</u>	<u>(\$ 76,908)</u>	<u>\$ 9,089,780</u>
<u>Nine-month period ended September 30, 2016</u>									
Balance at January 1, 2016		\$ 5,622,750	\$ 300,000	\$ 1,448,411	\$ 1,194,523	\$ 816,086	\$ -	(\$ 32,289)	\$ 9,349,481
Distributions of 2015 earnings									
Legal reserve		-	-	153,173	-	( 153,173)	-	-	-
Cash dividends	6(18)	-	-	-	-	( 393,593)	-	-	( 393,593)
Net income for the period		-	-	-	-	626,822	-	-	626,822
Other comprehensive loss for the period		-	-	-	-	-	( 27,856)	( 86,219)	( 114,075)
Balance at September 30, 2016		<u>\$ 5,622,750</u>	<u>\$ 300,000</u>	<u>\$ 1,601,584</u>	<u>\$ 1,194,523</u>	<u>\$ 896,142</u>	<u>(\$ 27,856)</u>	<u>(\$ 118,508)</u>	<u>\$ 9,468,635</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL REINSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)  
(Unaudited)

	Nine-month periods ended September 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	\$ 745,395	\$ 710,848
Adjustments		
Adjustments to reconcile profit or loss		
Depreciation	6,830	6,750
Amortization	1,196	1,092
Net change in reserves	465,693	(236,073)
Net gain or loss on financial assets and liabilities at fair value through profit or loss	(96,651)	53,609
Net gain or loss on available-for-sale financial assets	39,645	(48,302)
Net gain on investments in debt instruments without active market	-	(19,323)
Interest income	(234,754)	(290,136)
Dividend income	(106,233)	(58,662)
Unrealized foreign exchange gain or loss	283,456	(47,850)
Changes in operating assets and liabilities		
Changes in operating assets		
Accounts receivable	(29,884)	254,086
Financial assets at fair value through profit or loss	(66,817)	295,808
Reinsurance contract assets	(277,204)	(31,575)
Other assets	28,665	(28,929)
Changes in operating liabilities		
Accounts payable	63,462	(117,586)
Provisions	(760)	(148)
Other liabilities	28,029	(20,083)
Cash inflow generated from operations	850,068	423,526
Interest received	282,802	287,161
Dividend received	101,665	56,979
Income tax paid	(167,536)	(164,874)
Net cash flows from operating activities	<u>1,066,999</u>	<u>602,792</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through profit or loss	(15,000)	(8,040)
Proceeds from disposal of financial assets at fair value through profit or loss	13,923	8,012
Acquisition of available-for-sale financial assets	(13,481,082)	(13,232,188)
Proceeds from disposal of available-for-sale financial assets	9,431,351	14,089,930
Acquisition of investments in debt instruments without active market	(1,110,234)	(1,972,921)
Proceeds from repayments of investments in debt instruments without active market	1,302,711	521,238
Acquisition of held-to-maturity financial assets	(1,614,455)	-
Proceeds from repayments of held-to-maturity financial assets	300,000	-
Acquisition of property and equipment	(665)	(4,629)
Acquisition of intangible assets	(217)	(313)
Acquisition of investment property	(480)	(289)
Decrease (increase) in other financial assets	423,915	(58,977)
Net cash flows used in investing activities	<u>(4,750,233)</u>	<u>(658,177)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Payment of cash dividends	(393,593)	(674,730)
Net cash flows used in financing activity	<u>(393,593)</u>	<u>(674,730)</u>
Effects of exchange rate changes	(24,186)	(44,122)
Net decrease in cash and cash equivalents	(4,101,013)	(774,237)
Cash and cash equivalents at beginning of period	16,461,567	18,430,910
Cash and cash equivalents at end of period	<u>\$ 12,360,554</u>	<u>\$ 17,656,673</u>

The accompanying notes are an integral part of these financial statements.

CENTRAL REINSURANCE CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars, unless otherwise stated)  
(Unaudited)

1. HISTORY AND ORGANIZATION

Central Reinsurance Corporation (the “Company”) was originally a state-owned enterprise, incorporated on October 31, 1968, and provides a broad range of property and life inward and outward reinsurance services. The Company’s shares of stock have been traded on the Taiwan Stock Exchange since July 6, 2000. On July 9, 2002, the Ministry of Finance (MOF), the major shareholder of the Company, privatized the Company in accordance with rules of privatization of government-owned enterprises, effective on July 11, 2002. In addition, the Company has obtained the certificate for establishment and business license for its offshore insurance branch, and commenced its operation on January 1, 2016. Evergreen International Corporation holds 35.13% equity interest in the Company and has the ability to control the Company. Evergreen International Corporation is the Company’s parent company.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were reported to the Board of Directors and issued on October 27, 2016.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Company's financial position and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

**A. Amendments to IAS 1, 'Disclosure initiative'**

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure.

**B. Amendments to IAS 19, 'Defined benefit plans: Employee contributions'**

The amendment allows contributions made by employees or third parties that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions made by employees or third parties that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

**C. Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'**

The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment. When a material impairment loss has been recognised or reversed for an individual asset, including goodwill, or a CGU, it is required to disclose the recoverable amount of the asset or CGU. If the recoverable amount is fair value less costs of disposal, it is required to disclose the level of the fair value hierarchy, the valuation techniques(s) used and key assumptions.

**D. Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'**

The amendments state that when the parties to a derivative being designated as a hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties, and the novated derivative comply with all of the following criteria, there would be no need to discontinue hedge accounting:



- (a) Novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations.
- (b) Following the novation, a central counterparty would become the new counterparty to each of the original parties to the derivative.
- (c) Any changes to the derivative are limited to those that are necessary to effect such a replacement of the counterparty. Such changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied. However, this does not include changes to the maturity, the payment dates, or the contractual cash flows.

#### E. Annual improvements to IFRSs 2010-2012 cycle

##### (a) IFRS 2, 'Share-based payment'

The amendment clarifies the definition of a 'vesting condition' includes only service condition and performance condition. The amendment revises the definition of 'service condition', 'performance condition' and 'market condition'.

##### (b) IFRS 8, 'Operating segments'

The standard is amended to require disclosure of judgments made by management in aggregating operating segments. This amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only when segment asset is provided to chief operating decision maker regularly.

##### (c) IFRS 13, 'Fair value measurement'

When issuing IFRS 13 'fair value measurement', the IASB removed the guidance that an entity could measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The amendment clarifies the deletion was made by IASB noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial. The IASB did not intend to change the aforementioned measurement requirements, thus, entities can still apply above standard.

##### (d) IAS 24, 'Related party disclosures'

The standard is amended to include, as a related party, an entity (or any member of a group of which it is a part) that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

#### F. Annual improvements to IFRSs 2011-2013 cycle

##### (a) IFRS 1, 'First-time adoption of International Financial Reporting Standards'

This amendment clarifies paragraph BC11 in IFRS 1 is not requiring an entity to apply a more recent version of an IFRS, but only illustrates the advantages of applying a more recent version of an IFRS.

##### (b) IFRS 13, 'Fair value measurement'

The amendment clarifies that the exception of measuring the fair value of a group of financial assets and financial liabilities (portfolio exception) applies to all financial assets, financial

liabilities and other contracts within the scope of IFRS 9 or IAS 39.

(c) IAS 40, 'Investment property'

This amendment clarifies that preparers should refer to the guidance in IFRS 3 to determine whether the acquisition of a property is an asset acquisition or a business combination, and refer to the guidance in IAS 40 to distinguish between owner-occupied property and investment property.

G. Annual improvements to IFRSs 2012-2014 cycle

(a) IFRS 7, 'Financial instruments: Disclosures'

The amendment provides additional guidance to determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement and thus the disclosure requirement of transferred financial assets applies. And this amendment also clarifies that disclosure of offsetting is not required for all interim periods.

(b) IAS 19, 'Employee benefits'

The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds or not is based on corporate bonds in that currency, and not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

(c) IAS 34, 'Interim financial reporting'

The amendment clarifies what is meant by the reference in the standard to "information disclosed elsewhere in the interim financial report". The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017

Except for the following, the above standards and interpretations have no significant impact to the Company's financial position and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

**A. Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'**

To address the concerns about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new standard IFRS 4, 'Insurance contract', which may result in different bases for measuring assets and liabilities, this amendment allows insurers who meet specific requirements as set out in IFRS 4, 'Insurance contract' to adopt temporary exemption from IFRS 9, 'Financial instruments', or to use overlay approach under IFRS 9, 'Financial instruments' alternatively.

**B. IFRS 9, 'Financial instruments'**

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).
- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged

item or the hedging instrument for the purpose of maintaining the hedge ratio.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### (1) Compliance statement

These financial statements are prepared by the Company in accordance with the “Rules for the Preparation of Financial Reports by Insurance Institutions” and IAS 34, ‘Interim Financial Reporting’ as endorsed by the FSC.

##### (2) Basis of preparation

A. The Company does not have a subsidiary, and the Company’s financial statements are separate financial statements composed of balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows, and relevant notes.

B. Except for the following items, these financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

(d) Various insurance liabilities and reinsurance reserve assets recognized in accordance with specific statutory requirements and regulations relevant to insurance enterprises.

C. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

##### (3) Foreign currency translation

A. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in New Taiwan Dollars (“NTD”), which is the Company’s functional and presentation currency.

(a) Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction date. The translation differences upon actual payment are recognized in current profit or loss.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the reporting date. Exchange differences arising

upon re-translation at the reporting date are recognized in current profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) Except for aforementioned non-monetary assets denominated in foreign currencies held at fair value through profit or loss, foreign exchange gains or losses that arise from investing activities are recognized under net gain (loss) from investment in the statement of comprehensive income. Other foreign exchange gains or losses that do not arise from investing activities are recognized under other operating revenues or other operating costs.

B. The financial position and financial performance of offshore insurance branch that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the spot exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at spot exchange rates of the trade date ; and

(c) All resulting exchange differences are recognized in other comprehensive income.

#### (4) Cash equivalents

A. The statement of cash flows is prepared on the basis of cash and cash equivalents.

B. Cash equivalents refer to short-term, highly liquid investments that are:

(a) Readily convertible to known amount of cash; and

(b) Subject to an insignificant risk of changes in value.

C. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

#### (5) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

D. Gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss recognized in the statement of comprehensive income includes gain or loss arising from transactions, dividend and bonus, interest income, and evaluation at fair value on balance sheet date.

(6) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income. The cumulative gain or loss should be reclassified from equity to profit or loss when financial assets are derecognized.

D. The realized gain or loss on available-for-sale financial assets recognized in the statement of comprehensive income includes gain or loss arising from transactions as well as dividend and bonus except interest income.

(7) Investments in debt instruments without active market

A. Investments in debt instruments without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

(a) Not designated on initial recognition as at fair value through profit or loss;

(b) Not designated on initial recognition as available-for-sale;

(c) Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

B. On a regular way purchase or sale basis, investments in debt instruments without active market are recognized and derecognized using trade date accounting.

C. Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

D. The realized gain or loss on investments in debt instruments without active market recognized in the statement of comprehensive income includes gain or loss arising from transactions except interest income.

(8) Held-to-maturity financial assets

A. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.

B. On a regular way purchase or sale basis, held-to-maturity financial assets are recognized and derecognized using trade date accounting.

C. Held-to-maturity financial assets are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized in profit or loss.

D. The realized gain or loss on held-to-maturity financial assets recognized in the statement of comprehensive income includes gain or loss arising from transactions except interest income.

(9) Derivative financial instruments

A derivative financial instrument is initially recognized and subsequently measured at fair value. Any changes in the fair value are recognized in profit or loss. The gain or loss relating to derivative financial instrument is recognized in the statement of comprehensive income within “gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss”.

(10) Impairment of financial assets

A. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss are as follows:

- (a) Significant financial difficulty of the issuer or debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;
- (c) The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including

adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Investment property

A. An investment property is stated initially at its cost including related transaction costs; measured subsequently using the cost model and stated at cost less accumulated depreciation and accumulated impairment loss. Subsequent costs of major renewals and betterments are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is



derecognized. Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

B. The Company uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. When these portions can be sold separately, the own-use portion is accounted for in accordance with IAS 16, "Property, plant and equipment". However, property held either to earn rental income or for capital appreciation or for both is subject to IAS 40, "Investment Property". If part of property cannot be individually sold, and owner-occupied property is insignificant, it is accounted for as investment property.

C. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When assets are derecognized, the cost and the accumulated depreciation at the time of sale or retirement are written off. Gain or loss on sale of the investment property, rental income, and relevant payment shall be recognized in gain or loss on investment property under net gain from investment. Except for land, property is depreciated on a straight-line basis over its estimated useful life of 3 to 60 years. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change.

(12) Lease

The Company's lease contracts are all operating leases, where substantially all risks and rewards of ownership of the assets remain with the lessor. If the Company is a lessor, assets involved in operating lease are recognized under "investment property". If the Company is a lessee, leased assets will not be recognized in the balance sheet. Payments that the Company receives or charges under the operating lease are recognized as "gain or loss on investment property" and "operating expenses".

(13) Reinsurance contract assets

Reinsurance contract assets include due from reinsurers and ceding companies, ceded unearned premium reserve, ceded claims reserve, ceded premium deficiency reserve, ceded liability reserve and ceded liability adequacy reserve. Each of the reinsurance contract assets should be in compliance with relevant regulation and policy of "Regulation Governing Financial and Business Operations of Professional Reinsurance Enterprises" and "Rules for the Preparation of Financial Reports by Insurance Institutions".

(14) Impairment on reinsurance contract assets

Regular evaluation on reinsurance assets should be made to evaluate if there is any impairment. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract; and that event has a reliably measurable impact on the amounts that the Company will

receive from the reinsurer, the Company should reduce its carrying amount accordingly and recognize the provision for impairment loss or allowance for doubtful accounts.

(15) Property and equipment

A. Property and equipment are stated initially at its cost including related transaction costs, measured subsequently using the cost model and stated at cost less accumulated depreciation and accumulated impairment loss. Reserve for land revaluation increment tax set aside for revaluation over the current land value is recognized as deferred income tax liabilities. Subsequent costs of major renewals and betterments are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

B. Depreciation is computed using straight-line method over the estimated service lives as follows: buildings and equipment, 3 to 60 years; computer equipment, 3 to 6 years; transportation equipment, 3 to 10 years; and miscellaneous equipment, 3 to 10 years.

C. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change.

D. When an asset is retired or disposed, the cost plus revaluation increment, if any, and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to non-operating income and expenses during the financial period in which they are incurred.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized. Impairment loss and gain on reversal of impairment loss for investment property are recognized under operating revenue. Impairment loss and gain on reversal of impairment loss for property and equipment are recognized in non-operating income and expenses.

(17) Allowance for doubtful accounts

Accounts receivable, due from reinsurers and ceding companies under reinsurance contract assets,

refundable deposits and funds held by other insurance companies under other assets, and other rights may be transferred to overdue accounts booked in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”, IFRS 4, “Insurance Contracts” and the “Guidelines for Handling Assessment of Assets, Loans Overdue, Delinquent Accounts Receivable on Demand by Insurance Enterprises”, and the Company shall also recognize appropriate allowance for doubtful accounts with consideration of impairment losses and unrecoverable amounts.

(18) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

B. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(19) Derecognition of financial assets and financial liabilities

A. The Company derecognizes a financial asset when one of the following conditions is met:

(a) The contractual rights to receive the cash flows from the financial asset expire.

(b) The contractual rights to receive cash flows from the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.

(c) The contractual rights to receive cash flows from the financial asset have been transferred; however, the Company has not retained control of the financial asset.

B. A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires. Any difference between the book value of extinguished or transferred financial liabilities and the consideration paid is recognized in profit or loss.

(20) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(21) Classification of reinsurance contracts

Classification of reinsurance contracts should be made in compliance with IFRS 4, “Insurance Contracts”.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. A contract with no significant insurance risk being transferred is not classified as an insurance contract and is

recognized by deposit accounting.

A contract that falls within the definition of insurance contract on the initial recognition will still be deemed as insurance contract before its maturity.

(22) Insurance liabilities

The reserves related to Compulsory Automobile Liability Insurance are determined in accordance with “Regulations for Management of the Reserve of Compulsory Automobile Liability Insurance”. The equalization reserve related to residential earthquake insurance is determined in accordance with “Regulations Governing Implementation of the Residential Earthquake Risk Spreading Mechanism”.

The reserve related to nuclear insurance is determined in accordance with “Regulations Governing the Setting Aside of Nuclear Insurance Liability Reserves”.

The reserves excluding the reserve listed above were determined in accordance with “Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises ” and “Rules for the Preparation of Financial Reports by Insurance Institutions” to calculate unearned premium reserve, claims reserve, premium deficiency reserve, liability reserve, liability adequacy reserve and other reserve of inward reinsurance business.

According to “Directions for Strengthening Special Reserve by Reinsurance Enterprises”, “Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance” and “Regulations for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises” dated December 28, 2012, subsequent equalization reserve recognized under liabilities by December 31, 2012 should still be recognized under liabilities. Starting from January 1, 2013, the additional provision for equalization reserve less income tax should be recognized as special reserve under equity after annual closing and should not be distributed without approval. The release of the equalization reserve shall be made through equalization reserve under liabilities first. If such reserves are insufficient for release, then the deficiency shall be released through special reserves under equity based on its net amount after tax in accordance with IAS 12.

Among the reserves above, except for unearned premium reserve for long-term fire insurance which was calculated at a rate of 7.8% based on the coefficient table of unearned premium reserve for long-term fire insurance, the other reserves were not calculated by discounting.

(23) Liability adequacy test

When the estimated future cash flow of insurance contracts recognized as insurance liability at book value is insufficient, the entire deficiency is recognized in current loss in accordance with the requirement of the Actuarial Institution of Republic of China.

(24) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

## B. Pensions

### (a) Defined contribution plan

For defined contribution plan, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

### (b) Defined benefit plan

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurement arising on defined benefit plan are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

## C. Employees' remuneration and directors' remuneration

Employees' remuneration and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts should be recognized in profit or loss of the following year.

## (25) Income tax

A. The income tax expense (benefit) for the period comprises current and deferred income tax.

Income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to

situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. Income tax (10%) on undistributed earnings is recorded as expense in the year when the stockholders approve to retain the earnings.

C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting period, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current income tax assets against current income tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

F. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

#### (26) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to common stock on the effective date of new shares issuance.

#### (27) Reinsurance revenues

Income from reinsurance business refers to various premiums earned from reinsurance operations, including those that meet the requirements in IFRS 4 and can be recognized as income. The Company's estimates for reinsurance premium income are assessed based on estimated premiums of reinsurance contracts, information provided by ceding companies, and historical trends. Reinsurance related revenues are recognized on the accrual basis.

#### (28) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the

chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

### (1) Critical judgements in applying the Company's accounting policies

#### Financial assets-impairment of equity investments

The Company follows the guidance of IAS 39 to determine whether a financial asset-equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

### (2) Critical accounting estimates and assumptions

#### A.Reinsurance premiums

The Company's estimates for reinsurance premiums are assessed according to the estimated premiums of reinsurance contracts, information provided by ceding companies, and historical trends. Any changes in the estimates will affect the Company's financial position and performance.

#### B.Claims reserve (under insurance liabilities)

According to the nature of risk insurance, claim development, market experience, judgement over claim approval and other factors, appropriate actuarial calculation is adopted to recognize claims reserve except statutory insurance.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Cash:			
Petty cash	\$ 138	\$ 130	\$ 113
Checking accounts	63,038	53,908	85,737
Demand deposits	4,574,466	5,427,107	5,514,714
Cash equivalents:			
Time deposits	7,722,912	10,980,422	12,056,109
	<u>\$ 12,360,554</u>	<u>\$ 16,461,567</u>	<u>\$ 17,656,673</u>

A.The Company transacts with a variety of financial institutions all with high credit quality to

disperse credit risk, so it expects that the probability of counterparty default is remote.

B.The Company has no cash and cash equivalents pledged to others.

C.According to Regulations for Management of the Reserve of Compulsory Automobile Liability Insurance, the deposits which the Company deposited in the financial institutions are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Demand deposits	\$ 1,295,363	\$ 1,268,813	\$ 1,094,279
Time deposits	<u>2,457,224</u>	<u>2,251,185</u>	<u>2,946,086</u>
	<u>\$ 3,752,587</u>	<u>\$ 3,519,998</u>	<u>\$ 4,040,365</u>

D.Certain time deposits of the Company did not meet the definition of cash equivalents and are presented in other financial assets. Please see Note 6 (7).

(2) Accounts receivable

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Notes receivable	\$ 3,003	\$ 4,128	\$ 7,476
Other receivables	<u>254,943</u>	<u>243,937</u>	<u>149,302</u>
Total	257,946	248,065	156,778
Less: allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>-</u>
Net amount	<u>\$ 257,946</u>	<u>\$ 248,065</u>	<u>\$ 156,778</u>

A.The credit quality information of accounts receivable that are neither past due nor impaired was in the following categories based on the payment records:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Good	\$ 257,635	\$ 248,065	\$ 156,229
Delayed previously	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 257,635</u>	<u>\$ 248,065</u>	<u>\$ 156,229</u>

Accounts receivable that are neither past due nor impaired are accounted for in accordance with the “Guidelines for Handling Assessment of Assets, Loans Overdue, and Delinquent Accounts Receivable on Demand by Insurance Enterprises”. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B.The balances and ageing analysis of accounts receivable that were past due but not impaired are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
31 to 90 days	\$ 268	\$ -	\$ 503
91 to 180 days	<u>43</u>	<u>-</u>	<u>46</u>
	<u>\$ 311</u>	<u>\$ -</u>	<u>\$ 549</u>

(a)For the ageing of accounts receivable above, notes receivable are classified by maturity date and other receivables are classified by the date for recognition except that repayment date shall be stipulated according to the contract.



(b)The overdue accounts receivable above indicate those that were due but not paid. Except for notes receivable that were overdue and transferred to overdue accounts, other receivables were transferred to overdue accounts in three months after they were due.

C.The Company does not have any accounts receivable that were impaired.

D.The Company does not hold any collateral as security.

(3) Financial assets and financial liabilities at fair value through profit or loss

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Financial assets held for trading			
Domestic listed and over-the-counter stocks	\$ 39,080	\$ 19,607	\$ 28,439
Foreign listed stocks	66,402	-	-
Foreign index funds	41,855	60,913	60,914
Derivatives	<u>103,384</u>	<u>4,119</u>	<u>7,244</u>
	250,721	84,639	96,597
Valuation adjustment of financial assets held for trading	( <u>15,030</u> )	( <u>5,759</u> )	( <u>1,362</u> )
	<u>235,691</u>	<u>78,880</u>	<u>95,235</u>
Financial assets designated as at fair value through profit or loss on initial recognition			
Domestic convertible corporate bonds	5,500	3,504	2,500
Domestic mandatory convertible corporate bonds	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
	505,500	503,504	502,500
Valuation adjustment of financial assets designated as at fair value through profit or loss on initial recognition	( <u>65,510</u> )	( <u>44,811</u> )	<u>6,916</u>
	<u>439,990</u>	<u>458,693</u>	<u>509,416</u>
	<u>\$ 675,681</u>	<u>\$ 537,573</u>	<u>\$ 604,651</u>
	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Financial liabilities held for trading			
Derivatives	<u>\$ 5,112</u>	<u>\$ 31,549</u>	<u>\$ 71,219</u>

A. The Company's gain or loss on financial asset or financial liability at fair value through profit or loss are as follows:

	Three-month period ended <u>September 30, 2016</u>	Three-month period ended <u>September 30, 2015</u>
Financial instruments held for trading	\$ 133,090	(\$ 281,309)
Financial instruments designated as at fair value through profit or loss on initial recognition	( 13,538)	3,928
	<u>\$ 119,552</u>	<u>(\$ 277,381)</u>

  

	Nine-month period ended <u>September 30, 2016</u>	Nine-month period ended <u>September 30, 2015</u>
Financial instruments held for trading	\$ 228,518	(\$ 233,225)
Financial instruments designated as at fair value through profit or loss on initial recognition	( 8,540)	( 30,803)
	<u>\$ 219,978</u>	<u>(\$ 264,028)</u>

B. The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

C. The non-hedging derivative instruments transaction and contract information are as follows:

	<u>September 30, 2016</u>		<u>December 31, 2015</u>	
	Contract amount (Notional principal)	Contract period	Contract amount (Notional principal)	Contract period
<u>Derivative instruments</u>				
FX swap contracts	\$ 6,985,987	2016.06.03~ 2017.04.12	\$ 4,501,605	2015.10.27~ 2016.04.06
Forward foreign exchange contracts	333,800	2016.07.14~ 2017.01.20	1,035,417	2015.10.23~ 2016.02.26

	<u>September 30, 2015</u>	
<u>Derivative instruments</u>	Contract amount (Notional principal)	Contract period
FX swap contracts	\$ 4,255,908	2015.06.11~ 2015.12.15
Forward foreign exchange contracts	1,080,670	2015.04.09~ 2015.12.08

Note: Contract amount is translated into thousands of New Taiwan dollars using the exchange rates prevailing at the end of the period.

(a)FX swap contracts

The Company entered into FX swap contracts with financial institutions to hedge risk on its foreign investments arising from variations in the exchange rate. However, these FX swap contracts are not accounted for under hedge accounting.

(b)Forward foreign exchange contracts

The Company entered into forward foreign exchange contracts with financial institutions to hedge risk on its foreign investments arising from variations in the exchange rate. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(c)Futures

As of September 30, 2016, December 31, 2015 and September 30, 2015, all futures contracts were settled, and the related margin deposits were \$100,018, \$103,372 and \$101,307, respectively.

D.The Company has no financial assets at fair value through profit or loss pledged to others.

(4) Available-for-sale financial assets

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Domestic items:			
Listed and over-the-counter common stocks	\$ 2,011,605	\$ 1,126,422	\$ 898,156
Listed and over-the-counter preferred stocks	14,232	14,232	14,232
Securitized real estate products	613,947	613,947	613,947
Government bonds	633,181	1,040,841	921,283
Corporate bonds	-	-	299,995
Open-end funds	310,000	280,000	270,000
Index funds	60,498	110,859	208,479
Foreign items:			
Listed and over-the-counter common stocks	3,158,996	846,146	766,454
Open-end funds	911,268	353,276	427,510
Government bonds	561,403	-	-
Corporate bonds	162,039	-	-
Index funds	<u>300,783</u>	<u>358,560</u>	<u>319,673</u>
	8,737,952	4,744,283	4,739,729
Valuation adjustment of available-for-sale financial assets	( 143,201)	( 44,085)	( 91,961)
Less: statutory deposits	( 489,541)	( 898,076)	( 875,707)
	<u>\$ 8,105,210</u>	<u>\$ 3,802,122</u>	<u>\$ 3,772,061</u>

A.The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

B.Under the Insurance Act, the Company is required to deposit an amount equal to 15% of its paid-up capital. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Company provided government bonds with a par value of \$850,000 as statutory deposit, which have been respectively listed under available-for-sale financial assets and held-to-maturity financial assets.

C.Changes in unrealized gain or loss on available-for-sale financial assets under other comprehensive income are as follows:

	<u>2016</u>	<u>2015</u>
At January 1	(\$ 32,289)	\$ 164,265
Recognized directly in other comprehensive income	( 138,761)	( 217,329)
Deducted in equity adjustment and recognized in profit or loss	39,645	( 48,302)
Income tax from loss on valuation of foreign available-for-sale financial assets	<u>12,897</u>	<u>24,458</u>
At September 30	<u>(\$ 118,508)</u>	<u>(\$ 76,908)</u>

(5) Investments in debt instruments without active market

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Domestic items:			
Securitized financial asset products	\$ 300,000	\$ -	\$ 12,209
Corporate bonds	700,314	700,385	700,408
Financial bonds	704,559	908,287	703,006
Foreign items:			
Securitized financial asset products	904,504	974,958	978,194
Corporate bonds	805,823	1,376,918	1,042,360
Financial bonds	<u>1,603,200</u>	<u>1,518,334</u>	<u>1,250,121</u>
	5,018,400	5,478,882	4,686,298
Less: accumulated impairment	-	-	-
	<u>\$ 5,018,400</u>	<u>\$ 5,478,882</u>	<u>\$ 4,686,298</u>

A.The Company recognized interest income of \$34,997, \$30,686, \$107,486 and \$77,479 from amortization costs through profit or loss for the three-month and nine-month periods ended September 30, 2016 and 2015, respectively.

B.The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

C.Accumulated impairment resulted from domestic investments, which were reorganized due to changes in credit default rates leading to a decrease in future cash flows. Changes in analysis of accumulated impairment set aside by the Company are as follows:

	<u>2016</u>	<u>2015</u>
At January 1	\$ -	\$ 87,567
Disposal	-	( 87,567)
At September 30	<u>\$ -</u>	<u>\$ -</u>

D.No investments in debt instruments without active market held by the Group were pledged to others.

(6) Held-to-maturity financial assets

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Domestic items:			
Corporate bonds	\$ 450,089	\$ -	\$ -
Government bonds	439,834	-	-
Foreign items:			
Financial bonds	392,646	-	-
	<u>1,282,569</u>	<u>-</u>	<u>-</u>
Less: statutory deposits	( 439,834)	-	-
	<u>\$ 842,735</u>	<u>\$ -</u>	<u>\$ -</u>

A.The Company recognized interest income of \$3,285 and \$7,103 from amortization costs through profit or loss for the three-month and nine-month periods ended September 30, 2016, respectively.

B.The credit rating levels of the counterparties of the Company's debt instrument investments are provided in Note 13 (1).

C.Held-to-maturity financial assets held by the Company were pledged to others in Note 6 (4).

(7) Other financial assets

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Time deposits	<u>\$ 999,017</u>	<u>\$ 1,422,932</u>	<u>\$ 583,273</u>

A.The Company transacts with financial institutions all with high credit quality, so it expects that the probability of counterparty default is remote.

B.The Company has no other financial assets pledged to others.

(8) Structured entities

A.In accordance with the regulations of IFRS 12, 'Disclosure of interests in other entities', information about the interests in structured entities that are not controlled by the Company is as follows:

<u>September 30, 2016</u>		
<u>Type of structured entities</u>	<u>Book value</u>	<u>Nature</u>
Securitized real estate products	\$ 890,406	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	1,204,504	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 2,094,910</u>	

December 31, 2015

<u>Type of structured entities</u>	<u>Book value</u>	<u>Nature</u>
Securitized real estate products	\$ 924,963	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	974,958	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 1,899,921</u>	

September 30, 2015

<u>Type of structured entities</u>	<u>Book value</u>	<u>Nature</u>
Securitized real estate products	\$ 910,476	The beneficial securities were issued by trustee to provide investor gain on transaction, rent and value increment of real estate market.
Securitized financial asset products	990,403	The risks and rewards associated with the assets of the structured entity were passed on to investors through issuing bonds.
Total	<u>\$ 1,900,879</u>	

The structured entities that are not controlled by the Company are held for the purpose of generating investment income.

B. The structured entities that are not controlled by the Company are accounted for as available-for-sale financial assets and investments in debt instrument without active market. The entity's maximum exposure is the carrying amount of assets held. The investment position is restricted by contract terms and conditions of issue and exposes the corresponding market risk. The Company has considered risk management approach of relevant market. Please see Note 13 (1).

(9) Investment property

	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>At January 1, 2016</u>			
Cost	\$ 411,606	\$ 85,110	\$ 496,716
Accumulated depreciation	-	( 39,986)	( 39,986)
	<u>\$ 411,606</u>	<u>\$ 45,124</u>	<u>\$ 456,730</u>
<u>2016</u>			
At January 1	\$ 411,606	\$ 45,124	\$ 456,730
Additions-from subsequent expenditure	-	480	480
Depreciation	-	( 1,942)	( 1,942)
At September 30	<u>\$ 411,606</u>	<u>\$ 43,662</u>	<u>\$ 455,268</u>
<u>At September 30, 2016</u>			
Cost	\$ 411,606	\$ 85,590	\$ 497,196
Accumulated depreciation	-	( 41,928)	( 41,928)
	<u>\$ 411,606</u>	<u>\$ 43,662</u>	<u>\$ 455,268</u>
	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>At January 1, 2015</u>			
Cost	\$ 411,606	\$ 84,821	\$ 496,427
Accumulated depreciation	-	( 37,400)	( 37,400)
	<u>\$ 411,606</u>	<u>\$ 47,421</u>	<u>\$ 459,027</u>
<u>2015</u>			
At January 1	\$ 411,606	\$ 47,421	\$ 459,027
Additions-from subsequent expenditure	-	289	289
Depreciation	-	( 1,935)	( 1,935)
At September 30	<u>\$ 411,606</u>	<u>\$ 45,775</u>	<u>\$ 457,381</u>
<u>At September 30, 2015</u>			
Cost	\$ 411,606	\$ 85,110	\$ 496,716
Accumulated depreciation	-	( 39,335)	( 39,335)
	<u>\$ 411,606</u>	<u>\$ 45,775</u>	<u>\$ 457,381</u>

A.Rental income from the lease of the investment property and direct operating expenses arising from the investment property are as follows:



	Three-month period ended <u>September 30, 2016</u>	Three-month period ended <u>September 30, 2015</u>
Rental revenue from the lease of the investment property	\$ 5,714	\$ 6,393
Direct operating expenses arising from the investment property that generated rental income in the period	732	816

	Nine-month period ended <u>September 30, 2016</u>	Nine-month period ended <u>September 30, 2015</u>
Rental revenue from the lease of the investment property	\$ 19,227	\$ 19,897
Direct operating expenses arising from the investment property that generated rental income in the period	3,296	3,813

B. The Company leases investment properties to others under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the lessees enjoy preferential right to lease at the end of the lease period. The future aggregate lease payments receivable under leases contracted but not yet due are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Due in one year	\$ 17,378	\$ 18,608	\$ 20,805
Due after one year through three years	<u>9,233</u>	<u>2,992</u>	<u>5,611</u>
	<u>\$ 26,611</u>	<u>\$ 21,600</u>	<u>\$ 26,416</u>

C. The fair value of investment property held by the Company is estimated by an accredited external independent appraiser under “Regulations on Real Estate Appraisal” using valuation techniques of both the income approach and comparison approach, based on observable active market prices and the characteristics, locations and conditions of each asset on the measurement date— September 30, 2016, December 31, 2015 and September 30, 2015. The fair values of investment property for the aforementioned measurement dates were \$1,232,138, \$1,232,138 and \$1,227,586, which is categorized as Level 2 within the fair value hierarchy. Key assumptions of income approach are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Capitalization rate	1.00%~1.66%	1.00%~1.66%	1.09%~1.70%

D. The above assets were not pledged to others as collateral.

(10) Reinsurance contract assets and insurance liabilities

A. Details of reinsurance contract assets are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Due from reinsurers and ceding companies	\$ 2,373,334	\$ 2,095,207	\$ 2,508,349
Due from reinsurers and ceding companies-overdue	39,411	40,334	45,303
Reinsurance reserve assets			
Ceded unearned premium reserve	375,050	369,344	416,312
Ceded claims reserve	792,514	836,328	830,928
Ceded liability reserve	231,166	164,881	167,070
Ceded premium deficiency reserve	<u>2,985</u>	<u>1,832</u>	<u>1,892</u>
	3,814,460	3,507,926	3,969,854
Less: allowance for doubtful accounts	( 52,143)	( 52,143)	( 52,143)
	<u>\$ 3,762,317</u>	<u>\$ 3,455,783</u>	<u>\$ 3,917,711</u>

(a)The credit quality information of reinsurance contract assets that are neither past due nor impaired is as follows, and the evaluation of credit rating was conducted according to the ultimate reinsurers:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Group 1	\$ 35,390	\$ 18,465	\$ 41,152
Group 2	1,491,551	1,207,676	1,345,659
Group 3	1,526,374	1,400,486	1,716,030
Group 4	12,470	13,991	15,070
Group 5	2,164	3,291	4,026
Group 6	<u>658,783</u>	<u>654,570</u>	<u>691,150</u>
	<u>\$ 3,726,732</u>	<u>\$ 3,298,479</u>	<u>\$ 3,813,087</u>

Group 1: S&P AAA or equivalents.

Group 2: Over S&P AA- or equivalents.

Group 3: Over S&P A- or equivalents.

Group 4: Over S&P BBB- or equivalents.

Group 5: Under S&P BBB- or equivalents.

Group 6: without credit rating etc.

Note:Reinsurances undertaken without a credit rating are primarily from domestic insurance companies.

(b)The balances and ageing analysis of reinsurance contract assets that were past due but not impaired and impaired are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
31 to 90 days	\$ 8,970	\$ 102,288	\$ 83,447
91 to 180 days	50,236	75,300	33,271
181 to 270 days	( 415)	3,219	6,184
Over 271 days	28,937	28,640	33,865
	<u>\$ 87,728</u>	<u>\$ 209,447</u>	<u>\$ 156,767</u>

i. The ages of due from reinsurance and ceding companies, except for the estimated reinsurance receivables or payables on closing date, are classified by its booking date.

ii. The overdue due from reinsurance and ceding companies above indicate those that were due but not paid and were transferred to overdue accounts in nine months after they were due.

(c) Movement analysis on the Company's provision for impairment of reinsurance contract assets is as follows:

	<u>2016</u>	<u>2015</u>
At January 1	\$ 52,143	\$ 52,143
Write-off of bad debts	-	-
At September 30	<u>\$ 52,143</u>	<u>\$ 52,143</u>

(d) The Company does not hold any collateral as security.

B. Details of insurance liabilities are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Unearned premium reserve	\$ 5,225,319	\$ 4,993,221	\$ 5,180,753
Claims reserve	14,276,920	14,063,219	14,018,687
Liability reserve	231,166	164,881	167,070
Equalization reserve	4,000,364	3,973,029	3,998,628
Premium deficiency reserve	40,879	85,275	89,793
	<u>\$ 23,774,648</u>	<u>\$ 23,279,625</u>	<u>\$ 23,454,931</u>

C. Movements of ceded unearned premium reserve and unearned premium reserve are as follows:

	<u>2016</u>	<u>2015</u>
Ceded unearned premium reserve		
At January 1	\$ 369,344	\$ 414,183
Provision	375,341	416,312
Recovery	( 369,344)	( 414,183)
Exchange differences on translation of foreign financial statements	( 291)	-
At September 30	<u>\$ 375,050</u>	<u>\$ 416,312</u>

	<u>2016</u>	<u>2015</u>
Unearned premium reserve		
At January 1	\$ 4,993,221	\$ 5,081,509
Provision	5,231,717	5,180,753
Recovery	( 4,993,221)	( 5,081,509)
Exchange differences on translation of foreign financial statements	( 6,398)	-
At September 30	<u>\$ 5,225,319</u>	<u>\$ 5,180,753</u>

D.Details and movements of ceded claims reserve and claims reserve are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Ceded claims reserve			
Outstanding losses	\$ 313,972	\$ 314,465	\$ 294,976
Incurred but not reported	478,542	521,863	535,952
	<u>\$ 792,514</u>	<u>\$ 836,328</u>	<u>\$ 830,928</u>

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Claims reserve			
Outstanding losses	\$ 4,983,063	\$ 4,592,182	\$ 4,264,291
Incurred but not reported	9,293,857	9,471,037	9,754,396
	<u>\$ 14,276,920</u>	<u>\$ 14,063,219</u>	<u>\$ 14,018,687</u>

	<u>2016</u>	<u>2015</u>
Ceded claims reserve		
At January 1	\$ 836,328	\$ 897,152
Provision	792,514	830,928
Recovery	( 836,328)	( 897,152)
At September 30	<u>\$ 792,514</u>	<u>\$ 830,928</u>

	<u>2016</u>	<u>2015</u>
Claims reserve		
At January 1	\$ 14,063,219	\$ 14,211,559
Provision	14,276,920	14,018,687
Recovery	( 14,063,219)	( 14,211,559)
At September 30	<u>\$ 14,276,920</u>	<u>\$ 14,018,687</u>

E.Movements of ceded liability reserve and liability reserve are as follows:

	2016				2015			
	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)
Ceded liability reserve								
At January 1	\$ 32,379	CNY	5.092	\$ 164,881	\$ 14,590	CNY	5.101	\$ 74,421
Provision	17,254			68,644	17,553			93,094
Recovery	(474)			(2,359)	(89)			(445)
At September 30	<u>\$ 49,159</u>	CNY	4.702	<u>\$ 231,166</u>	<u>\$ 32,054</u>	CNY	5.212	<u>\$ 167,070</u>

  

	2016				2015			
	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)	Foreign currency amount (in thousands)	Currency	Exchange rate	NTD (in thousands)
Liability reserve								
At January 1	\$ 32,379	CNY	5.092	\$ 164,881	\$ 14,590	CNY	5.101	\$ 74,421
Provision	17,254			68,644	17,553			93,094
Recovery	(474)			(2,359)	(89)			(445)
At September 30	<u>\$ 49,159</u>	CNY	4.702	<u>\$ 231,166</u>	<u>\$ 32,054</u>	CNY	5.212	<u>\$ 167,070</u>

The provisions above include the effects of foreign exchange gains and losses.

F.Equalization reserves

(a)Details of equalization reserves are as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Equalization reserve for statutory insurance	\$ 1,419,286	\$ 1,391,951	\$ 1,417,550
Reserve for fluctuation of risk	2,055,296	2,055,296	2,055,296
Reserve for extraordinary business losses	525,782	525,782	525,782
	<u>\$ 4,000,364</u>	<u>\$ 3,973,029</u>	<u>\$ 3,998,628</u>

(b)Movement of equalization reserves is as follows:

	2016	2015
At January 1	\$ 3,973,029	\$ 4,210,477
Provision	27,335	(211,849)
Recovery	-	-
At September 30	<u>\$ 4,000,364</u>	<u>\$ 3,998,628</u>

(c)According to Jin-Guan-Pao-Tsai Order No. 10102517491, "Directions for Strengthening Special Reserve by Reinsurance Enterprises", Jin-Guan-Pao-Chan Order No. 10102531541, "Directions for Strengthening Co-insurance Reserve of Residential Earthquake Insurance" and Jin-Guan-Pao-Tsai Order No. 10102517091, "Regulations for Reserving Nuclear Energy

Insurance Reserve by Non-Life Insurance Enterprises” dated December 28, 2012, the Company’s accounts applicable or not applicable for the reserve for the nine-month periods ended September 30, 2016 and 2015, are as follows:

Nine-month period ended September 30, 2016				
	Earnings per share			
	Net income	(in dollars)	Total liabilities	Total equity
Applicable	\$ 626,822	\$ 1.11	\$ 24,437,685	\$ 9,468,635
Not applicable	626,822	1.11	22,137,205	11,769,115
Effect	\$ -	\$ -	(\$ 2,300,480)	\$ 2,300,480

  

Nine-month period ended September 30, 2015				
	Earnings per share			
	Net income	(in dollars)	Total liabilities	Total equity
Applicable	\$ 548,767	\$ 0.98	\$ 24,119,283	\$ 9,089,780
Not applicable	548,767	0.98	21,818,803	11,390,260
Effect	\$ -	\$ -	(\$ 2,300,480)	\$ 2,300,480

G.Movements of ceded premium deficiency reserve and premium deficiency reserve are as follows:

	2016	2015
Ceded premium deficiency reserve		
At January 1	\$ 1,832	\$ 3,902
Provision	2,985	1,892
Recovery	(1,832)	(3,902)
At September 30	\$ 2,985	\$ 1,892

  

	2016	2015
Premium deficiency reserve		
At January 1	\$ 85,275	\$ 86,494
Provision	40,879	89,793
Recovery	(85,275)	(86,494)
At September 30	\$ 40,879	\$ 89,793

H.The Company’s future cash flows of insurance liabilities (excluding equalization reserve) are as follows:

	September 30, 2016	Due in one year	Due after one year	Total
Insurance liabilities				
Unearned premium reserve	\$ 2,277,842	\$ 1,487,809	\$ 3,765,651	
Claims reserve	7,350,724	4,801,241	12,151,965	
Liability reserve	-	231,166	231,166	
Premium deficiency reserve	24,728	16,151	40,879	

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile

liability insurance, residential earthquake insurance and nuclear insurance is \$3,584,623).

<u>December 31, 2015</u>	<u>Due in one year</u>	<u>Due after one year</u>	<u>Total</u>
Insurance liabilities			
Unearned premium reserve	\$ 2,222,247	\$ 1,345,335	\$ 3,567,582
Claims reserve	7,490,376	4,534,629	12,025,005
Liability reserve	-	164,881	164,881
Premium deficiency	53,118	32,157	85,275

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance is \$3,463,853).

<u>September 30, 2015</u>	<u>Due in one year</u>	<u>Due after one year</u>	<u>Total</u>
Insurance liabilities			
Unearned premium reserve	\$ 2,345,562	\$ 1,419,990	\$ 3,765,552
Claims reserve	7,449,232	4,509,721	11,958,953
Liability reserve	-	167,070	167,070
Premium deficiency reserve	55,932	33,861	89,793

Note: Insurance liabilities exclude statutory insurance (total amount of compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance is \$3,474,935).

(11) Reserves for unqualified reinsurance

A. Summary of unqualified reinsurance contracts are set forth as follows:

The Company entered into contracts with insurance companies and insurance brokers as follows:

The scope of reinsurance is the same as the Company's insurance contracts.

<u>Insurance companies / insurance brokers</u>	<u>Type of contract</u>
WALSUN INSURANCE LTD.	Fire insurance, marine cargo insurance, inland marine insurance, marine hull insurance, fishing vessel insurance, automobile insurance, casualty insurance, personal accident insurance and engineering insurance
M.B. BODA REINSURANCE BROKERS PVT. LTD.	Fire insurance
INTERLINK INSURANCE & REINSURANCE BROKERS PVT. LTD.	Fire insurance, marine cargo insurance and Marine hull insurance
J B BODA INSURANCE SERVICES (L) BHD	Fire insurance and marine hull insurance
CATHAY INSURANCE (BERMUDA) CO., LTD.	Personal accident insurance

B. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Company had no unqualified reinsurance premiums ceded.

C. Reserve for unqualified reinsurance as of September 30, 2016, December 31, 2015 and September

30, 2015 were \$638, \$1,024 and \$1,032, respectively.

(12) Offsetting financial assets and financial liabilities

A. The Company has derivative assets that do not meet the offsetting criteria in paragraph 42 of IAS 32. However, the Company has transactions that are or are similar to net settled master netting arrangements. If one party breaches the contract (in the case of default and insolvency or bankruptcy), the counterparty can choose to use net settlement. The related amount of offsetting shall not exceed the gross amounts of recognized financial assets and liabilities.

B. The related information of financial assets and financial liabilities that can be settled under agreements of net settled master netting arrangements or similar arrangements are as follows:

(a) Financial assets

<u>Description</u>	<u>Gross amounts of recognized financial assets</u>	<u>Financial instruments not set off in the balance sheet</u>	<u>Net amount</u>
<u>September 30, 2016</u>			
Derivatives	\$ 103,384	\$ 5,112	\$ 98,272
<u>December 31, 2015</u>			
Derivatives	\$ 4,119	\$ 4,119	\$ -
<u>September 30, 2015</u>			
Derivatives	\$ 7,244	\$ 4,278	\$ 2,966

Note: The above-mentioned items are all accounted as financial assets at fair value through profit or loss.

(b) Financial liabilities

<u>Description</u>	<u>Gross amounts of recognized financial liabilities</u>	<u>Financial instruments not set off in the balance sheet</u>	<u>Net amount</u>
<u>September 30, 2016</u>			
Derivatives	\$ 5,112	\$ 5,112	\$ -
<u>December 31, 2015</u>			
Derivatives	\$ 31,549	\$ 4,119	\$ 27,430
<u>September 30, 2015</u>			
Derivatives	\$ 71,219	\$ 4,278	\$ 66,941

Note: The above-mentioned items are all accounted as financial liabilities at fair value through profit or loss



(13) Property and equipment

	<u>Land</u>	<u>Building</u>	<u>Computer equipment</u>	<u>Transportation equipment</u>	<u>Miscellaneous equipment</u>	<u>Total</u>
<u>At January 1, 2016</u>						
Cost	\$ 180,796	\$ 89,414	\$ 16,971	\$ 6,092	\$ 3,453	\$ 296,726
Accumulated depreciation	-	( 65,687)	( 10,195)	( 4,637)	( 2,763)	( 83,282)
	<u>\$ 180,796</u>	<u>\$ 23,727</u>	<u>\$ 6,776</u>	<u>\$ 1,455</u>	<u>\$ 690</u>	<u>\$ 213,444</u>
<u>2016</u>						
At January 1	\$ 180,796	\$ 23,727	\$ 6,776	\$ 1,455	\$ 690	\$ 213,444
Additions	-	-	514	-	151	665
Disposals-cost	-	-	( 609)	( 1,169)	-	( 1,778)
Disposals-accumulated depreciation	-	-	609	1,169	-	1,778
Depreciation	-	( 2,471)	( 2,043)	( 242)	( 132)	( 4,888)
At September 30	<u>\$ 180,796</u>	<u>\$ 21,256</u>	<u>\$ 5,247</u>	<u>\$ 1,213</u>	<u>\$ 709</u>	<u>\$ 209,221</u>
<u>At September 30, 2016</u>						
Cost	\$ 180,796	\$ 89,414	\$ 16,876	\$ 4,923	\$ 3,604	\$ 295,613
Accumulated depreciation	-	( 68,158)	( 11,629)	( 3,710)	( 2,895)	( 86,392)
	<u>\$ 180,796</u>	<u>\$ 21,256</u>	<u>\$ 5,247</u>	<u>\$ 1,213</u>	<u>\$ 709</u>	<u>\$ 209,221</u>

	<u>Land</u>	<u>Building</u>	<u>Computer equipment</u>	<u>Transportation equipment</u>	<u>Miscellaneous equipment</u>	<u>Total</u>
<u>At January 1, 2015</u>						
Cost	\$ 180,796	\$ 87,570	\$ 14,861	\$ 6,092	\$ 3,454	\$ 292,773
Accumulated depreciation	-	( 62,243)	( 8,814)	( 4,314)	( 2,630)	( 78,001)
	<u>\$ 180,796</u>	<u>\$ 25,327</u>	<u>\$ 6,047</u>	<u>\$ 1,778</u>	<u>\$ 824</u>	<u>\$ 214,772</u>
<u>2015</u>						
At January 1	\$ 180,796	\$ 25,327	\$ 6,047	\$ 1,778	\$ 824	\$ 214,772
Additions	-	1,809	2,788	-	32	4,629
Disposals-cost	-	-	( 1,007)	-	( 47)	( 1,054)
Disposals-accumulated depreciation	-	-	1,007	-	47	1,054
Depreciation	-	( 2,619)	( 1,815)	( 242)	( 139)	( 4,815)
At September 30	<u>\$ 180,796</u>	<u>\$ 24,517</u>	<u>\$ 7,020</u>	<u>\$ 1,536</u>	<u>\$ 717</u>	<u>\$ 214,586</u>
<u>At September 30, 2015</u>						
Cost	\$ 180,796	\$ 89,379	\$ 16,642	\$ 6,092	\$ 3,439	\$ 296,348
Accumulated depreciation	-	( 64,862)	( 9,622)	( 4,556)	( 2,722)	( 81,762)
	<u>\$ 180,796</u>	<u>\$ 24,517</u>	<u>\$ 7,020</u>	<u>\$ 1,536</u>	<u>\$ 717</u>	<u>\$ 214,586</u>

The above assets were not pledged to others as collateral.

(14) Accounts payable

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Due to reinsurers and ceding companies	\$ 168,112	\$ 269,439	\$ 311,890
Other payables	<u>320,542</u>	<u>155,753</u>	<u>148,430</u>
	<u>\$ 488,654</u>	<u>\$ 425,192</u>	<u>\$ 460,320</u>

(15) Employee benefits

A. Defined benefit obligation

(a) The Company has established a defined benefit pension plan in accordance with the Labor Standards Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 8% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(b) For the aforementioned pension plan, the Company recognized pension costs of \$809, \$1,092, \$2,427 and \$3,277 for the three-month and nine-month periods ended September 30, 2016 and 2015, respectively.

(c) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2017 amounts to \$4,561.

B. Defined contribution plan

(a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") in accordance with the Labor Pension Act. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance.

(b) The pension costs under the above-mentioned pension plan of the Company for the three-month and nine-month periods ended September 30, 2016 and 2015 were \$1,588, \$1,587, \$4,743 and \$4,690, respectively.

(16) Common stock

As of September 30, 2016, the Company's authorized capital was \$6,000,000, and the paid-in capital was \$5,622,750, with a par value of \$10 (in dollars) per share.

(17) Capital reserve

Pursuant to the R.O.C. Company Law, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the

legal reserve is insufficient. However, according to Jin-Guan-Pao-Tzai Letter No. 10202501991, for the purpose of strengthening the solvency and operation, insurance companies having no deficit should submit relevant documents demonstrating the financial soundness and steady operation of their companies to FSC for approval before the stockholders' meeting if they propose to use legal reserve provided under Article 145-1 of Insurance Act and capital surplus to issue cash to shareholders in proportion to their share ownership in accordance with Article 241 of the R.O.C. Company Law.

(18) Retained earnings

A. Limitation on distribution of retained earnings and dividend policy

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 20% of the remaining amount shall be set aside as legal reserve. Afterwards, the Company shall recognize or reverse special reserve in accordance with regulations, and accumulated unappropriated earnings of the prior period. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

The Company's dividends are distributed in the form of cash dividends and stock dividends in a coordinated way, among which, the cash dividends shall account for at least 50% of the total dividends distributed.

Pursuant to the R.O.C. Insurance Act, legal reserve shall be set aside until the total amount reaches the total capital. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-up capital. In addition, procedures for those requiring approval from competent authorities to use legal reserve for issuance of cash in accordance with Jin-Guan-Pao-Tzai Letter No. 10202501991 are set out in Note 6 (17).

Under the Integrated Income Tax System, ROC, tax credits allocated to stockholders are based on the balance of Imputation Credit Account on the dividend distribution date.

B. Special reserve

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Equalization reserve	\$ 1,067,966	\$ 1,067,966	\$ 850,157
Unrealized revaluation increment	<u>126,557</u>	<u>126,557</u>	<u>126,557</u>
	<u>\$ 1,194,523</u>	<u>\$ 1,194,523</u>	<u>\$ 976,714</u>

(a) According to regulations, the Company should set aside special reserve equal to the deducted amount of the equity from earnings after tax of the current year and the unappropriated earnings of the prior period. For the deducted amount from the equity accumulated from prior periods, an equal amount of special reserve should be set aside from unappropriated earnings of the prior period and is not to be distributed. If there is a reversal of deducted amount of equity, earnings may be distributed based on the reversal.

(b) For the year 2015, the provision for equalization reserve amounting to \$217,809 had been recognized as special reserve under equity upon annual resolution and is not available for distribution.

(c)The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa Order No. 1010012865, dated April 6, 2012 and Jin-Guan-Pao-Tzai Letter No. 10102508861, dated June 5, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

C.On May 27, 2016, the distribution of earnings for 2015 resolved by stockholders was \$393,593 (cash dividend of \$0.7 (in dollars) per share). On May 27, 2015, the distribution of earnings for 2014 resolved by stockholders was \$674,730 (cash dividend of \$1.2 (in dollars) per share).

Detailed information on earnings appropriation resolved by the stockholders is posted in the “Market Observation Post System” at the website of the Taiwan Stock Exchange.

D.For information relating to employees’ remuneration and directors’ remuneration, please see Note 6 (20).

(19) Income tax

A.Components of income tax expense:

	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
Current income tax:		
Current income tax on profits for the period	\$ 64,169	(\$ 8,987)
Adjustments in respect of prior years	-	-
Deferred income tax:		
Origination and reversal of temporary difference	( 10,872)	28,465
Income tax expense	<u>\$ 53,297</u>	<u>\$ 19,478</u>
	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Current income tax:		
Current income tax on profits for the period	\$ 151,554	\$ 103,795
Adjustments in respect of prior years	( 770)	19,357
Deferred income tax:		
Origination and reversal of temporary difference	( 32,211)	38,929
Income tax expense	<u>\$ 118,573</u>	<u>\$ 162,081</u>

B.The income tax relating to components of other comprehensive income are as follows:

	Three-month period ended <u>September 30, 2016</u>	Three-month period ended <u>September 30, 2015</u>
Exchange differences on translation of foreign financial statements	(\$ 3,567)	\$ -
Changes in fair value of available-for-sale financial assets	<u>547</u>	<u>(20,532)</u>
	<u>(\$ 3,020)</u>	<u>(\$ 20,532)</u>
	Nine-month period ended <u>September 30, 2016</u>	Nine-month period ended <u>September 30, 2015</u>
Exchange differences on translation of foreign financial statements	(\$ 5,705)	\$ -
Changes in fair value of available-for-sale financial assets	<u>(12,897)</u>	<u>(24,458)</u>
	<u>(\$ 18,602)</u>	<u>(\$ 24,458)</u>

C.Except for the Company's 2011 income tax return, the income tax returns have been assessed and approved by the Tax Authority up to 2014.

D.All undistributed earnings of the Company originated from years after 1998.

E.As of September 30, 2016, December 31, 2015 and September 30, 2015, the balance of the imputation tax credit account was \$72,131, \$127,937 and \$62,329, respectively. The creditable tax rate was 23.96% and 17.82% for 2015 and 2014, respectively.

(20) Employee benefits expense, depreciation and amortization

Employee benefits expense, depreciation and amortization by function are as follows:

Expense \ Function	Three-month period ended September 30, 2016		Three-month period ended September 30, 2015	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Employee Benefits Expense	\$ -	\$ 50,271	\$ -	\$ 50,095
Salaries	-	43,117	-	42,545
Employees' insurance	-	2,609	-	2,776
Pension	-	2,397	-	2,679
Other employee benefits expense (Note 1)	-	2,148	-	2,095
Depreciation (Note 2)	639	1,622	651	1,580
Amortization	-	399	-	309

Expense \ Function	Nine-month period ended September 30, 2016		Nine-month period ended September 30, 2015	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Employee Benefits Expense	\$ -	\$ 150,411	\$ -	\$ 154,615
Salaries	-	128,766	-	131,241
Employees' insurance	-	8,481	-	8,889
Pension	-	7,170	-	7,967
Other employee benefits expense (Note 1)	-	5,994	-	6,518
Depreciation (Note 2)	1,942	4,888	1,935	4,815
Amortization	-	1,196	-	1,092

As of September 30, 2016 and 2015, the Company had 135 and 141 employees, respectively.

Note 1: Other employee benefits expense include employees' welfare and training expenses.

Note 2: The depreciation, which is classified as operating cost, is accounted for as deduction to gain on investment property.

A. According to the Company Act amended in May 20, 2015, a company shall distribute employee compensation, based on the distributable profit of the current year, in a fixed amount or a ratio of profits. If a company has accumulated deficit, earnings should be channeled to cover losses. A company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the stockholders' meeting. The amended Articles of Incorporation of the Company was revised through the resolution of stockholders' meeting in 2016. According to the amended articles, after covering accumulated deficits with current year earnings, the remainder, if any, shall provision employees' compensation of no less than 0.5% and directors' remunerations of no more than 1%.

Distributions of 2014 earnings is according to the unrevised version of the Company's Articles of

Incorporation, 0.5% to 5% of distributable earnings shall be provisioned as employees' bonus and a percentage not exceeding 1% shall be provisioned as directors' remuneration.

B. The Company's estimated employees' compensation of \$2,511 and \$5,041 for the three-month and nine-month periods ended September 30, 2016, respectively, was determined from earnings on a pro-rata basis, which fell within the scope of the revised Company's Articles of Incorporation's requirements. The Company's estimated employees' bonus of \$453 and \$4,500 for the three-month and nine-month periods ended September 30, 2015, respectively, was determined from income after taxes on a pro-rata basis, which fell within the scope of the original Company's Articles of Incorporation's requirements. The Company's estimated directors' remuneration for the three-month and nine-month periods ended September 30, 2016 and 2015 were \$675, \$747, \$2,025 and \$2,242, respectively. The aforementioned amounts were recognized in salary expenses.

The 2015 employees' remuneration of \$6,741 and directors' remuneration of \$2,700 as approved by the Board of Directors of the Company were in agreement with the amounts recognized in the 2015 financial statements, and employees' bonus is distributed by cash.

Information about the appropriation of employees' and directors' remuneration by the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Supplemental cash flow information

Investing activities with partial cash payments:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Increase in investment	(\$ 16,403,313)	(\$ 15,058,552)
Decrease in investment	11,084,746	14,360,048
Add: ending balance of payable on investment	234,522	59,675
opening balance of receivable on investment	115,224	287,929
Less: opening balance of payable on investment	( 51,980)	( 214,272)
ending balance of receivable on investment	( 151,985)	( 28,797)
Net cash used in investments	<u>(\$ 5,172,786)</u>	<u>(\$ 593,969)</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and their relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Evergreen International Corporation	Parent company
Evergreen Insurance Company Limited	Other related parties
Directors, general managers, vice general managers, etc.	Key management of the Company



(2) Significant related party transactions and balances

A. Due from reinsurers and ceding companies (under reinsurance contract assets)

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Other related parties	\$ <u>335</u>	\$ <u>510</u>	\$ <u>1,329</u>

B. Other payables (under accounts payable)

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Parent	\$ <u>1,222</u>	\$ <u>1,412</u>	\$ <u>1,236</u>

C. Operating revenues and operating costs

	<u>Three-month period ended</u>	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Other related parties		
Gross premiums written	\$ 3,651	\$ 5,536
Reinsurance premiums ceded	3	35
Overriding commissions revenue	-	1
Reinsurance commission expenses	1,181	2,466
Reinsurance commission revenue	( 21)	( 7)
Reinsurance claims paid	4,224	79
Reinsurance claims recovery	( 7)	678

	<u>Nine-month period ended</u>	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Other related parties		
Gross premiums written	\$ 16,380	\$ 18,601
Reinsurance premiums ceded	1,055	44
Overriding commissions revenue	-	1
Reinsurance commission expenses	4,847	7,599
Reinsurance commission revenue	( 53)	43
Reinsurance claims paid	26,263	220
Reinsurance claims recovery	68	1,104

The differences of prices and conditions between related parties and non-related parties were not significant.

D. Operating expenses

	Three-month period ended <u>September 30, 2016</u>	Three-month period ended <u>September 30, 2015</u>
Parent		
System service charge, fees paid to stock transfer agent and printing expenses, etc.	\$ <u>3,330</u>	\$ <u>3,374</u>
	Nine-month period ended <u>September 30, 2016</u>	Nine-month period ended <u>September 30, 2015</u>
Parent		
System service charge, fees paid to stock transfer agent and printing expenses, etc.	\$ <u>10,446</u>	\$ <u>9,472</u>
(3) <u>Key management compensation</u>		
	Three-month period ended <u>September 30, 2016</u>	Three-month period ended <u>September 30, 2015</u>
Salaries and other short-term employee benefits	\$ 7,809	\$ 7,123
Post-employment benefits	<u>187</u>	<u>177</u>
	\$ <u>7,996</u>	\$ <u>7,300</u>
	Nine-month period ended <u>September 30, 2016</u>	Nine-month period ended <u>September 30, 2015</u>
Salaries and other short-term employee benefits	\$ 20,993	\$ 22,086
Post-employment benefits	<u>433</u>	<u>532</u>
	\$ <u>21,426</u>	\$ <u>22,618</u>

8. PLEDGED ASSETS

Please see Note 6 (4).

9. COMMITMENTS

None.

10. SIGNIFICANT ACCIDENTAL LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Fair value information

A. The fair value of the Company's financial instruments not measured at fair value is provided in

Note 12 (1) K. The fair value of the Company's investment property measured at cost model is provided in Note 6 (9).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an on-going basis. The fair value of the Company's investment in listed and over-the-counter stocks, beneficiary certificates and convertible corporate bonds is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in off-the-run government bonds, corporate bonds, financial bonds, derivative instruments and investment property is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in part of investments in debt instrument and mandatory convertible corporate bonds without active market is included in Level 3.

C. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at September 30, 2016, December 31, 2015 and September 30, 2015 is as follows:

<u>September 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter stocks	\$ 99,529	\$ -	\$ -	\$ 99,529
Index funds	32,778	-	-	32,778
Financial assets designated as at fair value through profit or loss on initial recognition				
Convertible corporate bonds	5,726	-	-	5,726
Mandatory convertible corporate bonds	-	-	434,264	434,264
Available-for-sale financial assets				
Securitized real estate products	890,406	-	-	890,406
Index funds	289,365	-	-	289,365
Government bonds	-	1,210,496	-	1,210,496
Listed and over-the-counter stocks	4,801,747	-	-	4,801,747
Listed and over-the-counter preferred stocks	-	22,440	-	22,440
Open-end funds	1,217,915	-	-	1,217,915
Corporate bonds	-	162,382	-	162,382
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 101,593	\$ -	\$ 101,593
Forward foreign exchange contracts	-	1,791	-	1,791
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	1,545	-	1,545
Forward foreign exchange contracts	-	3,567	-	3,567

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter stocks	\$ 19,623	\$ -	\$ -	\$ 19,623
Index funds	55,138	-	-	55,138
Financial assets designated as at fair value through profit or loss on initial recognition				
Convertible corporate bonds	3,666	-	-	3,666
Mandatory convertible corporate bonds	-	-	455,027	455,027
Available-for-sale financial assets				
Securitized real estate products	924,963	-	-	924,963
Index funds	454,200	-	-	454,200
Government bonds	-	1,057,061	-	1,057,061
Listed and over-the-counter stocks	1,605,502	-	-	1,605,502
Listed and over-the-counter preferred stocks	-	21,643	-	21,643
Open-end funds	636,829	-	-	636,829
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 54	\$ -	\$ 54
Forward foreign exchange contracts	-	4,065	-	4,065
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	30,331	-	30,331
Forward foreign exchange contracts	-	1,218	-	1,218

<u>September 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Listed and over-the-counter stocks	\$ 28,409	\$ -	\$ -	\$ 28,409
Index funds	59,582	-	-	59,582
Financial assets designated as at fair value through profit or loss on initial recognition				
Convertible corporate bonds	2,644	-	-	2,644
Mandatory convertible corporate bonds	-	-	506,772	506,772
Available-for-sale financial assets				
Securitized real estate products	910,476	-	-	910,476
Corporate bonds	-	301,574	-	301,574
Index funds	505,037	-	-	505,037
Government bonds	-	934,009	-	934,009
Listed and over-the-counter stocks	1,269,167	-	-	1,269,167
Listed and over-the-counter preferred stocks	-	20,763	-	20,763
Open-end funds	706,742	-	-	706,742
Derivative financial instruments				
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
FX swap contracts	\$ -	\$ 5,393	\$ -	\$ 5,393
Forward foreign exchange contracts	-	1,851	-	1,851
Liabilities				
<u>Recurring fair value measurements</u>				
Financial liabilities at fair value through profit or loss				
FX swap contracts	-	68,296	-	68,296
Forward foreign exchange contracts	-	2,923	-	2,923

D. The methods and assumptions the Company used to measure fair value are as follows:

- (a) The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

<u>Listed shares</u>	<u>Index funds</u>	<u>Convertible bond</u>	<u>Real estate securitization products</u>	<u>Open-end funds</u>
Closing price	Closing price	Closing price	Closing price	Net asset value

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques method can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- (c) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market and swap contracts, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d) For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitized instruments. Certain inputs used in the valuation model are not observable at market, and the Company must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12 (1) I.
- (e) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques. Forward exchange contracts are usually valued based on the current forward exchange rate.
- (f) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (g) The Company takes into account adjustments for credit risks to measure the fair value of financial instruments to reflect credit risk of the counterparty and the Company's credit quality.

E. For the nine-month periods ended September 30, 2016 and 2015, there were no transfer between Level 1 and Level 2.

F.The following table presents the changes in level 3 instruments for the nine-month periods ended September 30, 2016 and 2015:

Nine-month period ended September 30, 2016							
	Gain or loss on valuation		Acquired in the period		Disposed of in the period		
	Recognized	Recognized in	Buy or	Transfers	Sell,	Transfers	Ending
Opening	in profit or	other	issuance	into	disposal	out	balance
balance	loss	comprehensive		level 3	or	from	
		income			settle	level 3	
Financial assets at fair value through profit or loss							
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 455,027	(\$ 20,763)	\$ -	\$ -	\$ -	\$ -	\$ 434,264

Nine-month period ended September 30, 2015							
	Gain or loss on valuation		Acquired in the period		Disposed of in the period		
	Recognized	Recognized in	Buy or	Transfers	Sell,	Transfers	Ending
Opening	in profit or	other	issuance	into	disposal	out	balance
balance	loss	comprehensive		level 3	or	from	
		income			settle	level 3	
Financial assets at fair value through profit or loss							
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 548,664	(\$ 41,892)	\$ -	\$ -	\$ -	\$ -	\$ 506,772

Gain or loss on valuation recognized in profit or loss arising from the assets held for the nine-month periods ended September 30, 2016 and 2015 was (\$20,763) and (\$41,892), respectively.

G.For the nine-month periods ended September 30, 2016 and 2015, there were no transfer into or out from Level 3.

H.Financial segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make



results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently updating inputs used to the valuation model and making any other necessary adjustments to the fair value. Financial segment set up valuation policies, valuation processes and rules for measuring fair value of financial instruments and ensure compliance with the related requirements in IFRS.

I.The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at September 30, 2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 434,264	The binary tree stock discount model of convertible bonds	Liquidity premium	4.35%	Liquidity premium lower, fair value higher

	<u>Fair value at December 31, 2015</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 455,027	The binary tree stock discount model of convertible bonds	Liquidity premium	4.47%	Liquidity premium lower, fair value higher
	<u>Fair value at September 30, 2015</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Hybrid instrument:					
Financial assets at fair value through profit or loss					
Financial assets designated as at fair value through profit or loss on initial recognition					
Domestic mandatory convertible corporate bonds (Note)	\$ 506,772	The binary tree stock discount model of convertible bonds	Liquidity premium	2.78%	Liquidity premium lower, fair value higher

Note: Items that affect the fair value measurement of mandatory convertible corporate bonds include observable stock prices.

J.The Company has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable; however, different valuation model or input could result in different valuation result. Specifically, if the valuation input of financial instrument classified in Level 3 such as market interest rates increase or decrease by 50 basis points, the effects on profit and loss in the period are as follows:

	September 30, 2016		September 30, 2015	
	Change in fair value recognized in profit and loss		Change in fair value recognized in profit and loss	
	Favorable	Unfavorable	Favorable	Unfavorable
Hybrid instrument:				
Financial assets at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss on initial recognition	\$ 5,364	(\$ 5,262)	\$ 6,261	(\$ 5,802)

K.Fair value of the financial instruments not measured at fair value

Except for the financial instruments below and investment property, the carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, other financial assets and accounts payable) are approximate to their fair values.

	September 30, 2016			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Non-derivative financial instruments				
Investments in debt instruments without	\$ 5,018,400	\$ -	\$ 3,849,910	\$ 1,221,127
Held-to-maturity financial assets	1,282,569	-	1,286,629	-

	December 31, 2015			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Non-derivative financial instruments				
Investments in debt instruments				
without	\$ 5,478,882	\$ -	\$ 3,872,178	\$ 1,574,806
		September 30, 2015		
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Non-derivative financial instruments				
Investments in debt instruments				
without	\$ 4,686,298	\$ -	\$ 2,975,291	\$ 1,702,122

The different levels that the inputs to valuation techniques are used to measure fair value of financial instruments have been defined in Note 12 (1) B, and the methods and assumptions are as follows:

If recent transaction prices or market maker quotes are available, the fair value is based on such information. If there is no quoted market price available, the fair value is determined by using valuation techniques and calculated as the present value of the estimated cash flows.

(2) Assets and liabilities recoverable or payable within or over 12 months from the reporting date are as follows:

Assets	September 30, 2016			December 31, 2015		
	Book value	Within 12 months	Over 12 months	Book value	Within 12 months	Over 12 months
	Cash and cash equivalents	\$ 12,360,554	\$ 12,360,554	\$ -	\$ 16,461,567	\$ 16,461,567
Accounts receivable	257,946	257,946	-	248,065	248,065	-
Current income tax assets	69,977	69,977	-	69,977	69,977	-
Financial assets at fair value through profit or loss	675,681	235,691	439,990	537,573	78,880	458,693
Available-for-sale financial assets	8,105,210	7,322,004	783,206	3,802,122	3,743,455	58,667
Investments in debt instruments without active market	5,018,400	732,884	4,285,516	5,478,882	1,320,441	4,158,441
Held-to-maturity financial assets	842,735	279,638	563,097	-	-	-
Other financial assets	999,017	999,017	-	1,422,932	1,422,932	-
Investment property	455,268	-	455,268	456,730	-	456,730
Reinsurance contract assets	3,762,317	2,969,803	792,514	3,455,783	2,619,455	836,328
Property and equipment	209,221	-	209,221	213,444	-	213,444
Intangible assets	2,807	-	2,807	3,786	-	3,786
Other assets	1,088,720	7,249	1,081,471	1,086,086	30,071	1,056,015
		-				
<b>Liabilities</b>		-				
Accounts payable	\$ 488,654	\$ 487,575	\$ 1,079	\$ 425,192	\$ 423,575	\$ 1,617
Current income tax liabilities	51,259	51,259	-	68,011	68,011	-
Financial liabilities at fair value through profit or loss	5,112	5,112	-	31,549	31,549	-
Insurance liabilities	23,774,648	13,237,917	10,536,731	23,279,625	13,229,593	10,050,032
Provisions	7,255	-	7,255	8,015	-	8,015
Other liabilities	55,041	53,608	1,433	27,012	25,707	1,305

Assets	September 30, 2015		
	Book value	Within 12 months	Over 12 months
Cash and cash equivalents	\$ 17,656,673	\$ 17,656,673	\$ -
Accounts receivable	156,778	156,778	-
Current income tax assets	69,977	69,977	-
Financial assets at fair value through profit or loss	604,651	95,235	509,416
Available-for-sale financial assets	3,772,061	3,713,759	58,302
Investments in debt instruments without active market	4,686,298	1,347,933	3,338,365
Other financial assets	583,273	583,273	-
Investment property	457,381	-	457,381
Reinsurance contract assets	3,917,711	3,086,783	830,928
Property and equipment	214,586	-	214,586
Intangible assets	752	-	752
Other assets	1,052,256	21,476	1,030,780
<hr/>			
Liabilities			
Accounts payable	\$ 460,320	\$ 460,320	\$ -
Current income tax liabilities	10,542	10,542	-
Financial liabilities at fair value through profit or loss	71,219	71,219	-
Insurance liabilities	23,454,931	13,325,661	10,129,270
Provisions	5,630	-	5,630
Other liabilities	24,128	21,894	2,234

(3) Calculation of retention earned premiums are shown below:

Three-month period ended September 30, 2016					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 2,656,026	\$ 176,889	\$ 2,479,137	(\$ 158,262)	\$ 2,637,399
Compulsory insurance	627,977	-	627,977	4,083	623,894
	<u>\$ 3,284,003</u>	<u>\$ 176,889</u>	<u>\$ 3,107,114</u>	<u>(\$ 154,179)</u>	<u>\$ 3,261,293</u>
Three-month period ended September 30, 2015					
Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 2,788,765	\$ 186,100	\$ 2,602,665	(\$ 109,486)	\$ 2,712,151
Compulsory insurance	617,336	-	617,336	4,758	612,578
	<u>\$ 3,406,101</u>	<u>\$ 186,100</u>	<u>\$ 3,220,001</u>	<u>(\$ 104,728)</u>	<u>\$ 3,324,729</u>

Nine-month period ended September 30, 2016

Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 8,824,745	\$ 717,039	\$ 8,107,706	\$ 200,272	\$ 7,907,434
Compulsory insurance	1,821,891	-	1,821,891	32,226	1,789,665
	<u>\$ 10,646,636</u>	<u>\$ 717,039</u>	<u>\$ 9,929,597</u>	<u>\$ 232,498</u>	<u>\$ 9,697,099</u>

Nine-month period ended September 30, 2015

Category of insurance	Gross premiums written (1)	Reinsurance premiums ceded (2)	Retention premiums (3)=(1)-(2)	Net change in unearned premium reserve (4)	Retention earned premiums (5)=(3)-(4)
Non-Compulsory insurance	\$ 9,198,039	\$ 750,270	\$ 8,447,769	\$ 104,797	\$ 8,342,972
Compulsory insurance	1,747,302	-	1,747,302	( 7,682)	1,754,984
	<u>\$ 10,945,341</u>	<u>\$ 750,270</u>	<u>\$ 10,195,071</u>	<u>\$ 97,115</u>	<u>\$ 10,097,956</u>



(4) Calculation of retention reinsurance claims paid are shown below:

<u>Three-month period ended September 30, 2016</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 1,509,424	\$ 137,215	\$ 1,372,209
Compulsory insurance	664,860	-	664,860
	<u>\$ 2,174,284</u>	<u>\$ 137,215</u>	<u>\$ 2,037,069</u>

<u>Three-month period ended September 30, 2015</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 1,361,324	\$ 96,274	\$ 1,265,050
Compulsory insurance	631,403	-	631,403
	<u>\$ 1,992,727</u>	<u>\$ 96,274</u>	<u>\$ 1,896,453</u>

<u>Nine-month period ended September 30, 2016</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 4,469,716	\$ 345,039	\$ 4,124,677
Compulsory insurance	1,686,323	-	1,686,323
	<u>\$ 6,156,039</u>	<u>\$ 345,039</u>	<u>\$ 5,811,000</u>

<u>Nine-month period ended September 30, 2015</u>			
<u>Category of insurance</u>	<u>Reinsurance claims paid (1)</u>	<u>Reinsurance claims recovery (2)</u>	<u>Retention reinsurance claims paid (3)=(1)-(2)</u>
Non-Compulsory insurance	\$ 5,084,684	\$ 331,704	\$ 4,752,980
Compulsory insurance	2,048,206	-	2,048,206
	<u>\$ 7,132,890</u>	<u>\$ 331,704</u>	<u>\$ 6,801,186</u>

(5) Balance sheets for compulsory automobile liability insurance are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Assets			
Cash and cash equivalents	\$ 4,394,073	\$ 4,259,498	\$ 4,287,865
Due from reinsurers and ceding companies	<u>397,912</u>	<u>386,720</u>	<u>404,729</u>
	<u>\$ 4,791,985</u>	<u>\$ 4,646,218</u>	<u>\$ 4,692,594</u>
Liabilities			
Unearned premium reserve	\$ 1,438,902	\$ 1,406,676	\$ 1,405,931
Claims reserve	2,124,382	2,038,176	2,059,698
Equalization reserve	<u>1,228,701</u>	<u>1,201,366</u>	<u>1,226,965</u>
	<u>\$ 4,791,985</u>	<u>\$ 4,646,218</u>	<u>\$ 4,692,594</u>

Note: As of September 30, 2016, December 31, 2015 and September 30, 2015, certain time deposits, which amounted to \$641,486, \$739,500 and \$247,500 included above as cash and cash equivalents of compulsory automobile liability insurance did not meet the definition of cash equivalents, consequently they are presented under other financial assets.

(6) Details of revenues and costs for compulsory automobile liability insurance are as follows:

	Three-month period ended <u>September 30, 2016</u>	Three-month period ended <u>September 30, 2015</u>
Operating revenues		
Reinsurance premiums	\$ 627,977	\$ 617,336
Net change in unearned premium reserve	( 4,083)	( 4,758)
Retention earned premiums	623,894	612,578
Interest income	<u>3,201</u>	<u>4,874</u>
	<u>\$ 627,095</u>	<u>\$ 617,452</u>
Operating costs		
Reinsurance claims paid	\$ 664,860	\$ 631,403
Net change in claims reserve	28,850	( 848)
Net change in equalization reserve	( 66,615)	( 13,103)
	<u>\$ 627,095</u>	<u>\$ 617,452</u>

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Operating revenues		
Reinsurance premiums	\$ 1,821,891	\$ 1,747,302
Net change in unearned premium reserve	( 32,226)	7,682
Retention earned premiums	1,789,665	1,754,984
Interest income	10,199	14,622
	<u>\$ 1,799,864</u>	<u>\$ 1,769,606</u>
Operating costs		
Reinsurance claims paid	\$ 1,686,323	\$ 2,048,206
Net change in claims reserve	86,206	( 66,751)
Net change in equalization reserve	27,335	( 211,849)
	<u>\$ 1,799,864</u>	<u>\$ 1,769,606</u>

### 13. RISK MANAGEMENT

The Company has established risk management policy and procedure being the highest directive of promoting enterprise risk management, to efficiently identify, assess, respond and monitor all the risks assumed and to ensure that all risks are within the limitations as planned. Reasonable consideration relationship between risk and reward has been taken into account to maximize the value of equity, maintain the capital adequacy and solvency capability and strengthen the long-term operations of business. The Company has also set up risk management committee which is in charge of executing risk management decisions made by the Board of Directors, as well as independent risk management unit which is responsible for executive affairs in daily monitoring, assessment and evaluation of risks. With regard to the overall risk management of various circumstances, the Company implemented “Risk Managing Mechanism” covering market, credit, liquidity, operation, insurance, asset and liability, emerging market and other risks. In addition, in order to better improve the strategic risk management efficiency, risk quantitative module, finance of risk variance are put to use to analyze various businesses and calculate Value at Risk (VaR) and Risk-adjusted Return of Capital (RAROC). In addition, the Company sets up risk capacity and risk bearing as the basis for risk management, and promoting the computerization of various risk modules to continually strengthen the efficiency of risk management at the same time.

#### (1) Financial instruments

##### A. Financial risk management policies

Except for derivatives held by the Company, the Company’s financial instruments mainly comprise cash and cash equivalents, and all kinds of investments. The Company utilizes those instruments to achieve adjustments to operating cash flows. The Company holds other financial assets and liabilities as well, such as notes receivable from operating activities, due from (to) reinsurers and ceding companies, reinsurance receivables (payables), other accounts receivable, and other accounts payable.

The Company undertakes derivative financial instruments such as futures, forward foreign exchange contracts and FX swap contracts to hedge fair value risk arising from fluctuations in stock prices and exchange rates.

## B. Significant financial risks and degrees of financial risks

### (a) Market risk

#### i. Foreign exchange risk

To hedge cash flow fair value risk arising from fluctuations in exchange rates, the Company undertakes derivative financial instruments such as FX swap contracts and forward foreign exchange contracts to hedge recognized assets and liabilities denominated in foreign currencies.

The Company estimates that the conditions of the hedge instruments and the hedged items are the same, thus maximizing the hedging effectiveness.

a) The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2016

	Foreign currency amount (in thousands)	Exchange rate	Book value
Financial assets			
Monetary items			
CNY	461,062	4.702	2,168,136
EUR	1,001	35.070	35,103
HKD	49,583	4.045	200,579
JPY	1,848,903	0.311	574,355
KRW	2,022,250	0.028	57,606
USD	127,648	31.366	4,003,810
Non-monetary items			
CAD	2,609	23.818	62,147
CNY	274,559	4.702	1,291,106
EUR	6,153	35.070	215,805
HKD	376,591	4.045	1,523,443
JPY	1,444,952	0.311	448,870
USD	24,749	31.366	776,287
Financial liabilities			
Monetary items			
CNY	102,241	4.702	480,786
IDR	16,025,693	0.002	38,628
INR	134,234	0.471	63,231
JPY	767,114	0.311	238,301
KRW	5,327,029	0.028	151,742
SGD	2,057	22.979	47,264
USD	43,750	31.366	1,372,262

December 31, 2015

	Foreign currency amount (in thousands)	Exchange rate	Book value
<b>Financial assets</b>			
<b>Monetary items</b>			
AUD	699	24.165	\$ 16,884
CNY	581,148	5.092	2,959,348
EUR	2,025	36.105	73,114
GBP	384	49.027	18,803
HKD	182,136	4.266	777,076
IDR	6,711,244	0.002	16,104
JPY	949,112	0.275	260,659
KRW	2,429,935	0.028	68,378
USD	81,440	33.066	2,692,879
<b>Non-monetary items</b>			
CAD	2,588	23.812	61,632
CNY	57,540	5.092	293,009
HKD	136,564	4.266	582,648
JPY	463,993	0.275	127,429
USD	14,487	33.066	479,012
<b>Financial liabilities</b>			
<b>Monetary items</b>			
CNY	102,632	5.092	522,629
EUR	1,948	36.105	70,344
GBP	351	49.027	17,201
HKD	11,715	4.266	49,980
IDR	20,307,710	0.002	48,730
INR	167,784	0.500	83,815
JPY	669,702	0.275	183,923
KRW	7,767,588	0.028	218,578
MYR	2,188	7.701	16,847
PHP	10,708	0.705	7,549
SGD	2,243	23.416	52,519
USD	20,968	33.066	693,325

September 30, 2015

	Foreign currency amount (in thousands)	Exchange rate	Book value
<b>Financial assets</b>			
<b>Monetary items</b>			
AUD	657	23.276	\$ 15,303
CNY	572,228	5.212	2,982,502
EUR	1,900	37.186	70,660
GBP	336	50.215	16,869
HKD	186,750	4.275	798,276
IDR	7,476,915	0.002	16,917
INR	23,424	0.504	11,803
JPY	1,370,306	0.276	377,761
KRW	2,540,745	0.028	71,006
MYR	1,696	7.542	12,790
USD	66,383	33.128	2,199,136
<b>Non-monetary items</b>			
CAD	2,559	24.715	63,236
CNY	49,016	5.212	255,473
HKD	122,350	4.275	522,996
JPY	397,677	0.276	109,630
USD	16,099	33.128	533,337
<b>Financial liabilities</b>			
<b>Monetary items</b>			
CNY	78,098	5.212	407,054
DKK	1,610	4.985	8,024
EUR	2,026	37.186	75,338
GBP	343	50.215	17,216
HKD	8,048	4.275	34,402
IDR	22,131,890	0.002	50,073
INR	174,459	0.504	87,909
JPY	610,492	0.276	168,298
KRW	8,049,644	0.028	224,963
MYR	2,159	7.542	16,281
SGD	2,483	23.290	57,822
TRY	722	10.949	7,900
USD	20,603	33.128	682,538

b) Sensitivity analysis of foreign exchange risk listed in the table below is performed for reasonably possible changes in foreign exchange rates with other conditions held constant for monetary financial assets, showing the effect on profit or loss before tax.

	Nine-month period ended <u>September 30, 2016</u>	Nine-month period ended <u>September 30, 2015</u>
Foreign currencies to NTD appreciate by 1%	\$ 46,282	\$ 47,274
Foreign currencies to NTD depreciate by 1%	( 46,282)	( 47,274)

ii. Price risk

a) The values of financial instruments may be changed by economic situations, industrial circumstances, market capital flows and government monetary policies. To hedge market value risk exposures, the Company adopts diversified assets allocation strategy taking into account the current trends of financial markets to flexibly adjust assets portfolio under the provisions of Article 146 (1) ~ (8) of the Insurance Act, regulating the limits of funds utilization ratios and accordingly, disperse the market value risk.

b) The Company adopts the FX swap contracts and forward foreign exchange contracts to hedge exchange rate fluctuations risk on foreign-currency denominated assets. As the gain (loss) arising from exchange rate changes will mostly offset against the loss (gain) on hedged objectives, the Company estimates no material market value risk would arise. The Company is exposed to price risk because of investments in Taiwan Stock Index Futures, which have fair value in the active market. The Company sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.

c) The Company's investments comprise equity securities and REITs, etc. Their fair value would change due to the change of the prices of equity securities. If the prices of these equity securities and REITs had increased/decreased by 1% with all other variables held constant, pre-tax profit for the nine-month periods ended September 30, 2016 and 2015 would have increased/decreased by \$1,323 and \$880, respectively, as a result of gains on equity securities classified as at fair value through profit or loss. Other components of other comprehensive income would have increased/decreased by \$72,219 and \$34,122, respectively, as a result of gains on equity securities classified as available-for-sale.



iii. Interest rate risk

Sensitivity analysis of interest rate risk listed in the table below is performed for reasonably possible changes in interest rate with other conditions held constant, showing the effect on profit or loss before tax and other comprehensive income before tax. Measurement of interest rate risk not only takes into consideration the duration but also convexity. Relevant effects may differ from the actual values, but the differences are not significant.

September 30, 2016			
	<u>Changes in variables</u>	<u>Changes in profit or loss</u>	<u>Changes in other comprehensive income</u>
Financial assets at fair value through profit or loss	Increase/decrease 50 basis points	Decrease \$5,296/Increase \$5,398	-
Available-for-sale financial assets	Increase/decrease 50 basis points	-	Decrease \$42,643/Increase \$42,643
September 30, 2015			
	<u>Changes in variables</u>	<u>Changes in profit or loss</u>	<u>Changes in other comprehensive income</u>
Financial assets at fair value through profit or loss	Increase/decrease 50 basis points	Decrease \$5,816/Increase \$6,275	-
Available-for-sale financial assets	Increase/decrease 50 basis points	-	Decrease \$12,890/Increase \$12,890

(b)Credit risk

- i. When investing in financial instruments, the Company will encounter the risks that the transaction counterparties may default on contracts and the custodians may incur operating difficulties. The Company utilizes funds and makes investments in accordance with the Article 146 of Insurance Act and relevant laws, and conducts transactions only with counterparties with good credit ratings, or ensures that financial instruments are issued or guaranteed by reputable financial institutions, or acquires adequate collaterals. The Insurance Act also puts a limit to the transaction amount on an individual counterparty. Accordingly, the maximum loss to the Company is the total amount of all book value.
- ii. The Company utilizes funds and makes investments in financial instruments except for short-term notes and bills, time deposits, demand deposits and cash equivalents in accordance with the Article 146 of Insurance Act and related laws, and sets limits to control the investment volume with an individual institution. Therefore, the Company has lower significant concentrations of credit risk. As for the management of credit risk of debt instruments, the Company identifies the credit risk by its rating provided by external institutions, credit quality, conditions of locations and risk of counterparties. For credit ratings of counterparties, the Company strictly complies with the Article 146 of Insurance Act, the relevant legal interpretations and the Company's internal regulations on risk control. The counterparties of bond investments are those financial institutions and companies with a certain degree of credit rating.
- iii. The Company undertakes FX swap contracts and forward foreign exchange contracts only with high-credit-quality financial institutions. If the counterparties of Taiwan Stock Index Futures default, the futures brokers will be liable for the losses incurred on the default. Accordingly, the Company estimates no material credit risk would arise.
- iv. The credit quality information of financial instruments is as follows:

	Assets are neither past due nor impaired								
	Credit rating						Impaired assets	Impairment reserve	Total
	S&P AAA or equivalents	Over S&P AA- or equivalents	Over S&P A- or equivalents	Over S&P BBB- or equivalents	Over S&P BB- or equivalents	Without credit rating etc. (Note)			
<u>September 30, 2016</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 434,264	\$ 5,726	\$ -	\$ -	\$ 439,990
Available-for-sale financial assets	724,858	648,020	-	-	-	-	-	-	1,372,878
Investments in debt instruments without active market	904,504	1,336,316	1,973,653	603,927	200,000	-	-	-	5,018,400
Held-to-maturity financial assets	-	832,480	200,089	250,000	-	-	-	-	1,282,569
	<u>\$ 1,629,362</u>	<u>\$ 2,816,816</u>	<u>\$ 2,173,742</u>	<u>\$ 853,927</u>	<u>\$ 634,264</u>	<u>\$ 5,726</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,113,837</u>
<u>December 31, 2015</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 455,027	\$ 3,666	\$ -	\$ -	\$ 458,693
Available-for-sale financial assets	-	1,057,061	-	-	-	-	-	-	1,057,061
Investments in debt instruments without active market	974,958	278,229	2,050,622	1,975,073	200,000	-	-	-	5,478,882
	<u>\$ 974,958</u>	<u>\$ 1,335,290</u>	<u>\$ 2,050,622</u>	<u>\$ 1,975,073</u>	<u>\$ 655,027</u>	<u>\$ 3,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,994,636</u>
<u>September 30, 2015</u>									
Financial assets at fair value through profit or loss	\$ -	\$ -	\$ -	\$ -	\$ 506,772	\$ 2,644	\$ -	\$ -	\$ 509,416
Available-for-sale financial assets	-	934,009	301,574	-	-	-	-	-	1,235,583
Investments in debt instruments without active market	978,194	294,632	1,316,849	1,896,623	200,000	-	-	-	4,686,298
	<u>\$ 978,194</u>	<u>\$ 1,228,641</u>	<u>\$ 1,618,423</u>	<u>\$ 1,896,623</u>	<u>\$ 706,772</u>	<u>\$ 2,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,431,297</u>

Note: Domestic convertible corporate bonds.

(c)Liquidity risk

- i. The Company uses time deposits to adequately adjust its cash flows. When conducting investment evaluation, the Company will take into account the liquidity of financial instruments in secondary markets and may allocate some funds to lower-liquidity but higher-yield-rate financial instruments on condition that the risk is controlled. Even if those financial instruments are sold in the short-term, there is a less likelihood that liquidity risk would arise due to the selling price being significantly lower than the fair value. However, those financial instruments are not intended to be sold in the short-term.
- ii. The notional principal of FX swap contracts and forward foreign exchange contracts is normally used as a calculation basis of receivables and payables for these transactions, and is not the actual settlement amount. The actual settlement amount is usually lower than the notional principal. The Company has paid margins in advance before undertaking Taiwan Stock Index Futures transactions, and daily evaluates the unsettled futures positions. In case when additional margins have to be paid later on, the Company has sufficient working capital to fulfill its payment obligations. Accordingly, the Company estimates no material cash flow risk would arise.
- iii. The table below analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

a) Non-derivative financial liabilities

<u>September 30, 2016</u>	<u>Due in one year</u>	<u>Due after one year through three years</u>	<u>Total</u>
Accounts payable	\$ 487,575	\$ 1,079	\$ 488,654
Deposits-in (under other liabilities)	2,778	1,433	4,211

  

<u>December 31, 2015</u>	<u>Due in one year</u>	<u>Due after one year through three years</u>	<u>Total</u>
Accounts payable	\$ 423,575	\$ 1,617	\$ 425,192
Deposits-in (under other liabilities)	3,537	1,305	4,842

  

<u>September 30, 2015</u>	<u>Due in one year</u>	<u>Due after one year through three years</u>	<u>Total</u>
Accounts payable	\$ 460,320	\$ -	\$ 460,320
Deposits-in (under other liabilities)	2,633	2,234	4,867

b) Net-settled derivative financial liabilities

<u>September 30, 2016</u>	<u>Due in three months</u>	<u>Due after three months through one year</u>	<u>Total</u>
FX swap contracts	\$ 1,545	\$ -	\$ 1,545
Forward foreign exchange contract	2,679	888	3,567

December 31, 2015	Due in three months	Due after three months through one year	Total
FX swap contracts	\$ 30,331	\$ -	\$ 30,331
Forward foreign exchange contract	1,218	-	1,218
September 30, 2015	Due in three months	Due after three months through one year	Total
FX swap contracts	\$ 68,296	\$ -	\$ 68,296
Forward foreign exchange contract	2,923	-	2,923

## (2) Risk management of insurance contracts

All insurance contracts assumed by the Company, after assessment, were considered risks transferred by reinsurance. Risk management and procedures are summarized below:

### A. Measurement and management of insurance risk:

Insurance risk occurs when loss frequency, severity, timing and other possible risk factors are far from past experience. For example, natural and man-made catastrophes risk may occur randomly and thus actual claims may be more than expected.

The Company follows underwriting and risk management related guidelines to assume reinsurance business. The Company's internal quantitative model, external monitoring model, internal control system and other related systems are developed to ensure insurance risks are efficiently identified, measured, steered and monitored.

#### (a) Underwriting policy

The reinsurance portfolio of the Company consists of various types of reinsurance and businesses from different countries and territories. The insurance types include life insurance, property and casualty insurance and others which are in compliance with regulatory requirement. The Company's core markets are in Asia.

#### (b) Retrocession strategy

In consideration of financial strength, capacity and the operation strategies, the Company arranges retrocession to increase the capacity, diversify risks, mitigate retained risk and increase business competitiveness. Furthermore, the Company has purchased catastrophe cover to minimize the exposure to catastrophe loss which may greatly impact the Company's financial performance. Stringent evaluation of the reputation and credit rating of the reinsurer is taken into account when the Company arranges a retrocession contract.

Although the Company adopts various prescribed methods to control insurance risk, given the random and unpredictable nature of insured incidents, deviation may occur between the actual result and the expectation derived from historical experience.

B. Concentration of insurance risk

Premium income and retention premium income ratio based on the business type are as follows:

Type \ Year	Nine-month period ended September 30, 2016		Nine-month period ended September 30, 2015	
	Reinsurance premiums	Retention premiums	Reinsurance premiums	Retention premiums
Domestic inward property reinsurance business	62.56%	61.91%	59.69%	58.87%
Domestic inward life reinsurance business	26.46%	26.81%	29.42%	29.98%
Subtotal-Domestic inward reinsurance business	89.02%	88.72%	89.11%	88.85%
Foreign inward reinsurance business	10.98%	11.28%	10.89%	11.15%
Total	100.00%	100.00%	100.00%	100.00%

C. Sensitivity analysis of insurance risk

The retention earned premium income of the Company (excluding the compulsory automobile liability insurance business) for the nine-month periods ended September 30, 2016 and 2015 were \$7,907,434 and \$8,342,972, respectively. If the change of combined ratio of the Company is 1%, the estimated effect on gains and losses of underwriting for the nine-month periods ended September 30, 2016 and 2015 would be approximately \$79,074 and \$83,430, respectively.

#### D.Loss development pattern

(a)As of September 30, 2016, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Nine-month period ended September 30, 016</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,764,133	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 5,067,741	\$ 3,322,847	
After the first year	8,406,636	7,341,226	9,666,215	7,292,566	7,436,156		
After the second year	7,872,830	7,077,263	9,033,742	6,839,554			
After the third year	7,621,219	6,703,107	8,847,489				
After the fourth year	7,445,767	6,483,311					
After the fifth year	<u>7,385,407</u>						
Accumulated estimated claim amount	7,385,407	6,483,311	8,847,489	6,839,554	7,436,156	3,322,847	\$ 40,314,764
Accumulated claim payment	( 6,829,636)	( 5,851,243)	( 7,817,024)	( 5,576,941)	( 3,923,407)	( 187,076)	( 30,185,327)
Accumulated unpaid claim	555,771	632,068	1,030,465	1,262,613	3,512,749	3,135,771	10,129,437
Add: accumulated unpaid claim before 2010							<u>2,022,528</u>
Subtotal							<u>12,151,965</u>
Provision for statutory insurance claims reserve (Note) and life reinsurance claims reserve due after one year							
Recognition in balance sheet (under claims reserve of insurance liabilities)	-	-	112,513	379,144	905,006	728,292	<u>2,124,955</u>
							<u>\$ 14,276,920</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(b)As of September 30, 2016, the following table indicates the loss development pattern of the Company's retention business:

<u>Year of underwriting</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Nine-month period ended September 30,</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 4,455,722	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 4,796,487	\$ 3,130,932	
After the first year	7,768,781	6,797,370	9,076,191	6,809,108	6,941,771		
After the second year	7,312,008	6,596,777	8,505,546	6,415,270			
After the third year	7,078,121	6,262,364	8,329,975				
After the fourth year	6,914,609	6,047,368					
After the fifth year	<u>6,853,767</u>						
Accumulated estimated claim amount	6,853,767	6,047,368	8,329,975	6,415,270	6,941,771	3,130,932	\$ 37,719,083
Accumulated claim payment	( 6,321,897)	( 5,440,555)	( 7,401,279)	( 5,224,741)	( 3,668,827)	( 165,748)	( 28,223,047)
Accumulated unpaid claim	531,870	606,813	928,696	1,190,529	3,272,944	2,965,184	9,496,036
Add: accumulated unpaid claim before 2010							<u>1,863,415</u>
Subtotal							<u>11,359,451</u>
Provision for statutory insurance claims reserve (Note) and life reinsurance claims reserve due after one year	-	-	112,513	379,144	905,006	728,292	<u>2,124,955</u>
Recognition in balance sheet							<u>\$ 13,484,406</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.



(c)As of December 31, 2015, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 3,248,664	\$ 4,764,133	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 5,067,741	
After the first year	7,946,701	8,406,636	7,341,226	9,666,215	7,292,566		
After the second year	7,717,952	7,872,830	7,077,263	9,033,742			
After the third year	7,409,328	7,621,219	6,703,107				
After the fourth year	7,351,080	7,445,767					
After the fifth year	7,242,534						
Accumulated estimated claim amount	7,242,534	7,445,767	6,703,107	9,033,742	7,292,566	5,067,741	\$ 42,785,457
Accumulated claim payment	( 6,767,151)	( 6,790,394)	( 5,790,309)	( 7,620,738)	( 4,688,427)	( 987,353)	( 32,644,372)
Accumulated unpaid claim	475,383	655,373	912,798	1,413,004	2,604,139	4,080,388	10,141,085
Add: accumulated unpaid claim before 2009							<u>1,883,920</u>
Subtotal							<u>12,025,005</u>
Provision for statutory insurance claims reserve (Note) and life reinsurance claims reserve due after one year			42,435	294,281	929,354	772,144	<u>2,038,214</u>
Recognition in balance sheet (under claims reserve of insurance liabilities)							<u>\$ 14,063,219</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(d)As of December 31, 2015, the following table indicates the loss development pattern of the Company's retention business:

<u>Year of underwriting</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 3,003,431	\$ 4,455,722	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 4,796,487	
After the first year	7,292,393	7,768,781	6,797,370	9,076,191	6,809,108		
After the second year	7,085,938	7,312,008	6,596,777	8,505,546			
After the third year	6,812,135	7,078,121	6,262,364				
After the fourth year	6,761,218	6,914,609					
After the fifth year	<u>6,653,693</u>						
Accumulated estimated claim amount	6,653,693	6,914,609	6,262,364	8,505,546	6,809,108	4,796,487	\$ 39,941,807
Accumulated claim payment	( 6,207,146)	( 6,284,574)	( 5,382,933)	( 7,219,451)	( 4,407,007)	( 953,731)	( 30,454,842)
Accumulated unpaid claim	446,547	630,035	879,431	1,286,095	2,402,101	3,842,756	9,486,965
Add: accumulated unpaid claim before 2009							<u>1,701,712</u>
Subtotal							<u>11,188,677</u>
Provision for statutory insurance claims reserve (Note) and life reinsurance claims reserve due after one year							
			42,435	294,281	929,354	772,144	<u>2,038,214</u>
Recognition in balance sheet							<u>\$ 13,226,891</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(e)As of September 30, 2015, the following table indicates the loss development pattern of the Company's inward business:

<u>Year of underwriting</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Nine-month period ended September 30,</u>	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 3,248,664	\$ 4,764,133	\$ 4,333,245	\$ 5,222,485	\$ 4,482,819	\$ 3,337,754	
After the first year	7,946,701	8,406,636	7,341,226	9,666,215	7,087,623		
After the second year	7,717,952	7,872,830	7,077,263	9,287,012			
After the third year	7,409,328	7,621,219	6,841,191				
After the fourth year	7,351,080	7,483,311					
After the fifth year	<u>7,228,696</u>						
Accumulated estimated claim amount	7,228,696	7,478,451	6,841,191	9,287,012	7,087,623	3,337,754	\$ 41,260,727
Accumulated claim payment	<u>( 6,756,410)</u>	<u>( 6,787,069)</u>	<u>( 5,755,821)</u>	<u>( 7,526,338)</u>	<u>( 4,029,518)</u>	<u>( 384,581)</u>	<u>( 31,239,737)</u>
Accumulated unpaid claim	472,286	691,382	1,085,370	1,760,674	3,058,105	2,953,173	10,020,990
Add: accumulated unpaid claim before 2009							<u>1,937,963</u>
Subtotal							<u>11,958,953</u>
Provision for statutory insurance claims reserve (Note) and life reinsurance claims reserve due after one year							
Recognition in balance sheet (under claims reserve of insurance liabilities)	( 4)	( 125)	45,971	346,247	1,067,062	600,583	<u>2,059,734</u>
							<u>\$ 14,018,687</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

(f)As of September 30, 2015, the following table indicates the loss development pattern of the Company's retention business:

<u>4</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	Nine-month period ended September 30,	<u>Total</u>
Non-statutory insurance							
Accumulated estimated claim amount							
At the end of the year	\$ 3,003,341	\$ 4,455,722	\$ 4,062,535	\$ 4,924,699	\$ 4,218,773	\$ 3,173,139	
After the first year	7,292,393	7,768,781	6,797,370	9,076,191	6,618,039		
After the second year	7,085,938	7,312,008	6,596,777	8,750,240			
After the third year	6,812,135	7,078,121	6,393,676				
After the fourth year	6,761,218	6,946,886					
After the fifth year	<u>6,639,735</u>						
Accumulated estimated claim amount	6,639,735	6,946,886	6,393,676	8,750,240	6,618,039	3,173,139	\$ 38,521,715
Accumulated claim payment	( 6,196,966)	( 6,281,460)	( 5,350,483)	( 7,135,510)	( 3,799,223)	( 382,752)	( 29,146,394)
Accumulated unpaid claim	442,769	665,426	1,043,193	1,614,730	2,818,816	2,790,387	9,375,321
Add: accumulated unpaid claim before 2009							<u>1,752,704</u>
Subtotal							<u>11,128,025</u>
Provision for statutory insurance claims reserve (Note) and life reinsurance claims reserve due after one year							
	( 4)	( 125)	45,971	346,247	1,067,062	600,583	<u>2,059,734</u>
Recognition in balance sheet							<u>\$ 13,187,759</u>

Note: Statutory insurance includes compulsory automobile liability insurance, residential earthquake insurance and nuclear insurance.

#### 14. THE OBJECTIVE, POLICY AND PROCEDURE OF CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are to safeguard capital adequacy and solvency of the Company in order to support the Company's sustainable development and continuously create interests for shareholder.

In practice, Taiwan insurance enterprises usually measure whether the capital is adequate by using the capital adequacy ratio. Pursuant to Article 143-4 of Insurance Act, an insurance enterprise's ratio of self-owned capital to risk-based capital may not be lower than 200%. The Company calculates the capital adequacy ratio every six months in accordance with "Regulations Governing Capital Adequacy of Insurance Companies" to ensure that it can continuously meet the statutory capital requirement.

In accordance with "Regulations Governing Capital Adequacy of Insurance Companies", capital adequacy ratio is calculated as self-owned capital divided by risk-based capital. Self-owned capital is the total capital approved by the competent authority, which includes recognized owners' equity and other adjustment items as regulated by the competent authority; risk-based capital is the total capital calculated based on the extent of risk that an insurance enterprise assumes in its actual operations. Capital adequacy ratios of the Company as at December 31, 2015 and 2014 were all above 300% and in compliance with regulation.

#### 15. OTHER DISCLOSURES

##### (1) Information of significant transactions

A.Acquisition of real estate in excess of \$300,000 or 20% of the paid-up capital: None.

B.Disposals of real estate in excess of \$300,000 or 20% of the paid-up capital: None.

C.Related party transactions in excess of \$100,000 or 20% of the paid-up capital: None.

D.Accounts receivable from related parties in excess of \$100,000 or 20% of the paid-up capital: None.

E.Derivative business transactions: Please see Note 6 (3).

F.Business and significant transactions between the parent company and subsidiaries, and those between subsidiaries: None.

##### (2) Information related to long-term investments

None.

##### (3) Investments in Mainland China and business transactions

None.

#### 16. SEGMENT INFORMATION

The Company operates business only in reinsurance services. The Company allocates resources and assesses performance of the Company as a whole, and has identified that the Company has only one reportable operating segment.

#### 17. BORROWINGS RESULTED FROM PAYMENT OF CLAIMS

None.

18. ACQUISITION, CONSTRUCTION, IDLELIZATION AND SALES OF MAIN OPERATING ASSETS AND REAL ESTATE INVESTMENTS

None.

19. IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None.

20. IMPORTANT CONTRACTS SIGNED, DISCHARGED BY PERFORMANCE, AGREEMENT, OR BREACHED

Aside from regular contracts related to the insurance business, the Company had no important contracts signed, discharged by performance, agreement, or breached.

21. INVESTMENT ITEMS AND INVESTMENT CEILINGS WITH THE INVESTMENT FUNDS BEING HANDLED AND MANAGED BY THE SECURITIES INVESTMENT TRUST COMPANIES OR SECURITIES INVESTMENT CONSULTING COMPANIES

None.

22. ADJUSTMENT OF ORGANIZATION AND SIGNIFICANT CHANGE OR REFORM OF MANAGEMENT MECHANISM

For status of the Company's application to establish an offshore insurance branch, please refer to the explanation in Note 1.

23. EFFECTS OF SIGNIFICANT CHANGES IN GOVERNMENT LAWS

None.